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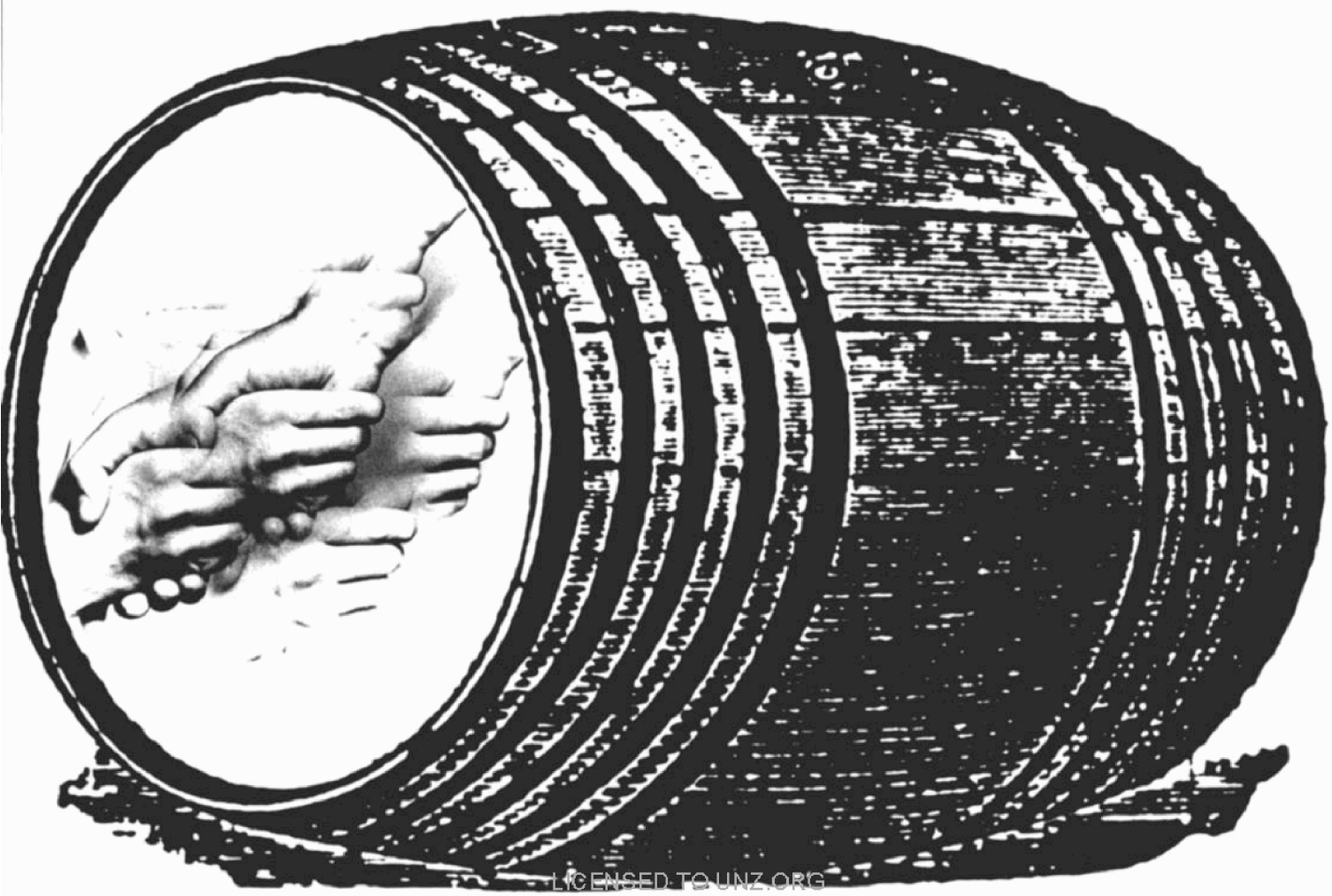

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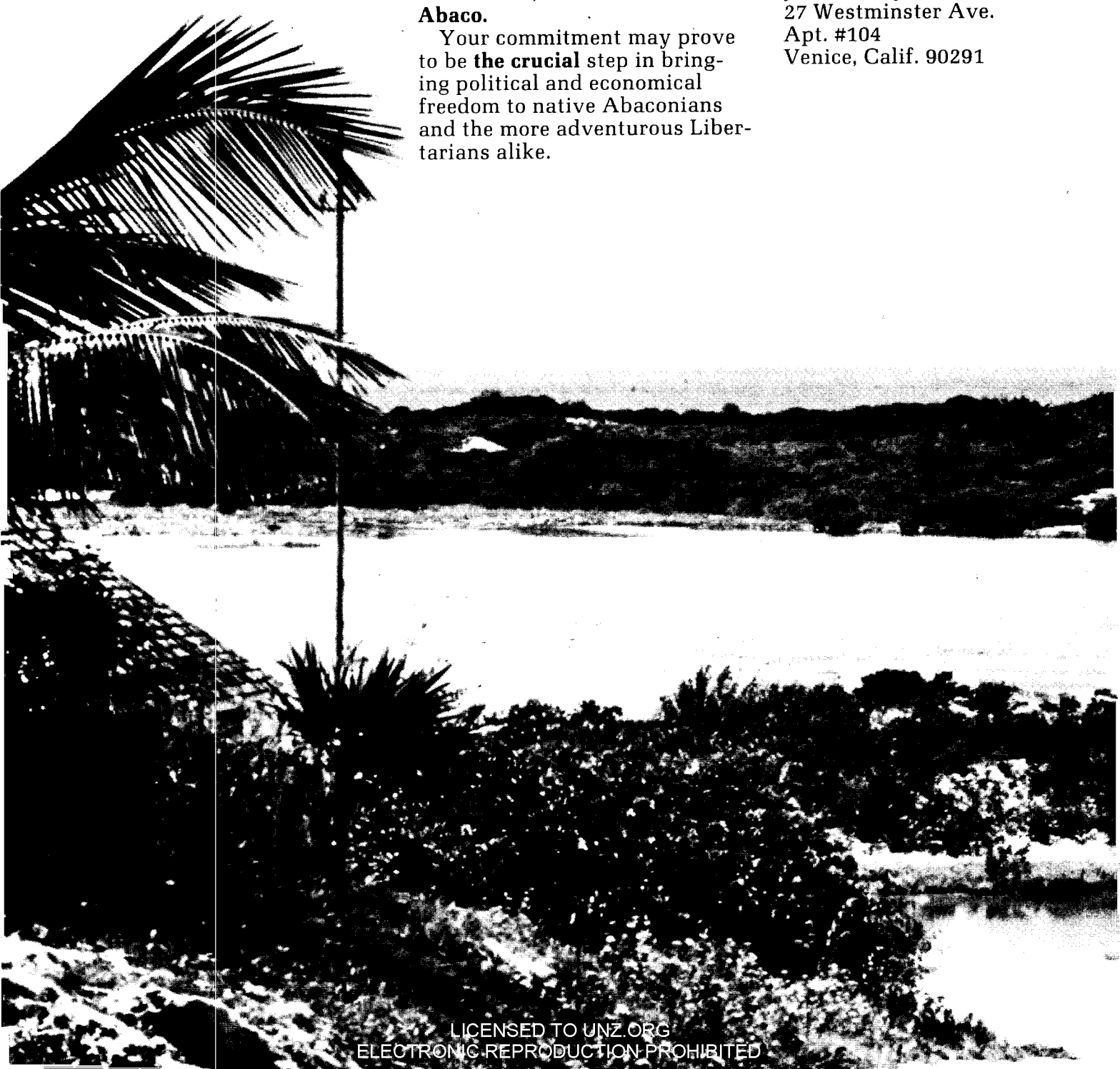

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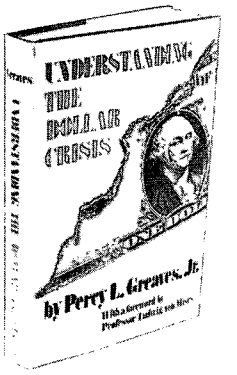

UNDERSTANDING THE DOLLAR CRISIS by Percy L. Greaves, Jr., with a Foreword by Professor Ludwig von Mises—the first non-technical book showing why and how capitalism works.

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- How wealth is created;
- Why any political intervention in the free market—including taxes —MUST misdirect production and reduce human satisfaction;
- 2 common fallacies about money;
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- Why *all* participants gain in free market transactions;
- Why socialism can't work;
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- How inflation is created—and 5 ways it hurts you;
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And drawing upon his vast knowledge of the history of capitalism, Professor Greaves spices his book with little known nuggets including:

- How Karl Marx built his entire theory upon Adam Smith's mistaken theory of value;
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- How Hitler used wage and price controls, and what the results were —Professor Greaves' first-hand account.

Plus Tables, Examples, Questions and Answers

UNDERSTANDING THE DOLLAR CRISIS was originally delivered as a series of lectures to the Centro de Estudios sobre la Libertad, in Buenos Aires. All 33 tables and 42 non-technical examples Professor Greaves used to illustrate the theory, history, and applications, are included.

Long-time Associate of Ludwig von Mises

After a successful career in business and politics, Professor Greaves became a noted student and associate of Ludwig von Mises. He was Chairman of the Mises Circle for 12 years and the Armstrong Professor of Economics, with Professor Mises, at the University of Plano, Texas.

For 5 years, Professor Greaves spoke at Seminars, and led discussions for the Foundation for Economic Education. He has conducted 57 series of lectures, including 4 as a co-lecturer with Professor Mises.

Professor Greaves has written essays for 6 books including PERPETUAL WAR FOR PERPETUAL PEACE and ON FREEDOM AND FREE ENTERPRISE. He was Financial Editor for *U.S. News* and has written for the *Chicago Tribune, National Review, Human Events, The Freeman* and other publications in North and South America, Europe and Asia.

Moreover, in lively give-and-take sessions following each lecture, Professor Greaves' listeners questioned him, probing for possible problems and expanding on areas of intense interest.

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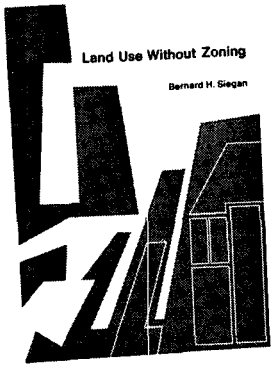

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What Mr. Siegan shows, and it is this which makes his study of interest to a much wider audience than those professionally concerned with zoning, is that the market can be used effectively to solve problems which it is commonly thought can only be handled by government regulation.
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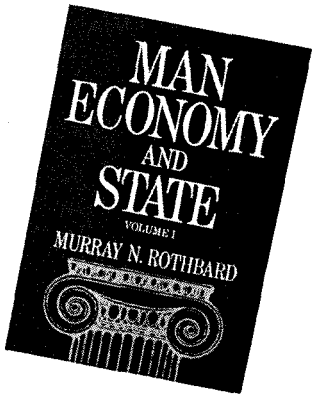

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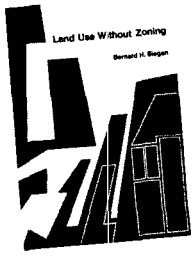

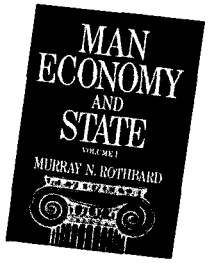

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In recent weeks the oil industry has continually been in the public eye, whether through advertising attempting to explain the gasoline shortage or as the target of Congressional demagoguery. Many libertarians, as advocates of capitalism, automatically rush to the defense of companies, like those in the oil business, that are threatened with increased government regulation. But defenders need to know what they are defending. The oil industry, as Dr. Armentano demonstrates, is hardly the innocent victim of prior government regulation, but rather an active partner with the State, of long standing. Any solution to our current energy problems must include the unraveling of this unhealthy status quo.

D. T. Armentano received his Ph.D. in economics from the University of Connecticut and currently teaches at the University of Hartford. His book, THE MYTHS OF ANTITRUST, *was published in 1972 by Arlington House. His articles on economics and public policy have appeared in a number of journals, including several prior issues of* REASON.

The businessman's role in the U.S. economic system, and particularly his participation in the formation of the political economy of that system, has always been a keen source of controversy among libertarians. Some libertarians, many libertarian conservatives, and most libertarian Objectivists are fond of arguing that American business—and particularly American Big Business—is, to borrow a hotly disputed phrase, "America's Persecuted Minority" when it comes to governmental economic policy. What these people mean, apparently, is that the hard working American businessman has been harrassed constantly by repressive and thoroughly nonobjective legislation that violates his rights and sometimes makes legal defense—as in the case of antitrust litigation—almost impossible. And with this fundamental *primary* implication, certainly, we can find no quarrel at all.

However, it is with the additional implications and ramifications of this thesis that the matter becomes controversial. For some libertarians go on to imply that (1) the nonobjective legislation was fundamentally the product of altruistic, do-gooding liberals; (2) that businesspeople are essentially competitive individualists who are committed to free enterprise and despise government interventions; and (3) that anyone who dares attack business for "ripping off" consumers must either be "out of focus", a simple-minded left-wing radical, or against all achievement and material progress.

PETROLEUM, POLITICS, & PRICES

by D T ARMENTANO

This particular "right-wing" libertarian point of view has prompted a fundamentally opposite position from some "left-wing" libertarians. They would hold that big businessmen are devils, that large corporations (especially multinational corporations) are responsible for much of the modern world's evil, and that all important domestic and foreign policy was engineered by a well-defined corporate aristocracy.

"Antitrust is a myth and a hoax, and so is the theory of competition on which it ultimately rests."

The facts indicate to this author that neither generalization will suffice in the extreme. Some businesspeople *are* independent, courageous, and committed to free enterprise; most, unfortunately are not. Some *are* devils in a libertarian sense and have spent much of their energy destroying the system of "natural liberty"; most businessmen, of course, are not engaged in any such conspiracy. And certainly some economic markets are "monopolistic" and consumers *are* exploited when they purchase in those markets, though the monopoly and exploitation are far different from what is usually assumed.

In sum, businessmen are both victims and victimizers, exploiters and certainly part of the exploited, legitimate recipients of praise—for where would we be economically without such people—and yet, also, legitimate recipients of scorn—for where would we be if some had not willingly participated in the block-by-block construction of corporate socialism in America?

The discussion which follows deals with monopolization in the petroleum industry and business' alleged role in that monopolization. The method of approach reflects the author's belief that the only way to discover the truth about a particular matter is to investigate it. Bombastic *a priori* pronouncements concerning guilt are just not good enough. Understanding in political economy can only be attained through correct application of economic theory and careful analysis of the actual relationships between government and business or, more accurately, be-

tween politicians and businessmen. We shall have more to say on this subject below.

MONOPOLY AND ANTITRUST

Within the last year, the Federal Trade Commission (FTC), the State of Florida, and the State of Connecticut have all brought important antitrust suits against the major domestic petroleum companies. These legal actions charge the companies with conspiring to restrain and monopolize trade in interstate commerce with respect to various petroleum products, in violation of the Sherman Antitrust Act, the Federal Trade Commission Act, and the respective state antitrust laws. A quote from a section of the Connecticut indictment will indicate the breadth of the allegations in these cases.

> For at least the last twenty years, the Defendants have contracted, combined or conspired among themselves and with others to restrain and monopolize trade in interstate commerce by agreeing among themselves to fix, control, maintain, limit or discontinue the production of crude oil, in violation of Sections 1 and 2 of the Sherman Act. They have agreed among themselves to prevent the independent sector of the petroleum industry from gaining access to crude oil supplies, the effect of which has been to substantially restrain trade between the Defendants and independent refiners in the purchase of crude oil for refining.

The Connecticut indictment then goes on to charge illegal restraints of trade in various other areas including pipelines and gasoline products, and a concerted illegal effort to run the "independent" oil dealers out of business. And, finally, in its "prayer for relief," it asks that the court declare the total integration of the defendants' oil companies to be, in and of itself, a violation of the Sherman Act (!) and order, accordingly, an extensive divestiture of crude oil holdings, exploration activities, and pipelines. The FTC and Florida suits, respectively, are almost identical in allegations concerning monopoly and in proposed remedies.

"Prorationing in the petroleum industry achieves monopoly control over crude oil supply by law."

Is there an element of monopoly in the petroleum industry? Of course there is. But, two more important questions are the following: (1) Is the industry monopolistic for the reasons set down in the indictments, and (2) Does the theory of monopoly that these legal actions implicitly accept, or the *remedies* for monopoly that these suits demand, make any objective sense?

Orthodox economic analysis would have you believe that the most important determinant of "competition" is the market *structure* of the industry under consideration. Structure most importantly relates to the relative size of the leading companies in the industry and the degree of vertical integration of those leading companies. Now although there are thousands of firms in what is called the "petroleum industry", there are less than a dozen, both domestically and internationally, that do a high percentage share of the business in the important phases of that industry. For instance, the largest eight integrated *crude* oil firms ship roughly 50 percent of all crude output, refine almost 60 percent of all refined product and market about 45 percent of all gasoline in the United States. Internationally, there is even more concentration with seven major companies (the domestic giants: Exxon, Gulf, Texaco, Standard Oil of California, and Mobil, in addition to British Petroleum and Royal Dutch-Shell) dominating crude and transport. And it is this structural concentration and the subsequent *conduct* and *performance* that allegedly flows from it that causes the monopoly problem.

Economists argue that industries so concentrated bestow "monopoly power" on the exalted industry leaders. And with that power the firms can and do misallocate economic resources, earn "monopoly" rates of return, forego technical change and intense price competition, and ruin (if and when they choose) smaller independent competitors dependent on the majors for crude oil and pipeline transport of their product. In a word, it is alleged that competition "in the public interest" is not possible with such concentrations of power, and hence legal dissolution, which would decentralize the industry and its alleged power, is both a logical and appropriate solution for these economists.

But as this author (and others) have argued elsewhere, this view of competition and monopoly power is completely incorrect. The entire position is premised on the notion of something called *pure competition* as a standard against which one can judge the conduct and performance of flesh-and-blood corporations. According to this mischievous theory, real firms automatically misallocate resources, and the larger they are the greater the "misallocations." Even worse, if such firms have specific *cost advantages* over other (smaller) firms, the advantages create so-called "barriers to entry" which—in antitrust legal jargon—restrain trade and ultimately violate the law. Indeed, *any* economic advantage possessed and employed by such firms could be so interpreted as "limiting competition." Hence, one ends up with the nonsense position of condemning the very firms in society that one ought to be

praising, in the name of preserving "competition." Antitrust is a myth and a hoax, and so is the theory of competition upon which it ultimately rests.

The only rational definition of monopoly, or monopoly power, or monopoly price, pertains to a *grant of governmental power to a business,* usually to exclude or restrict competitive production. Such grants "decrease competition" *by law* and do indeed "misallocate resources" if by this we mean that producers are prevented from allocating resources in the most efficient manner as determined by free consumer choice. To understand monopoly in the petroleum industry, we must examine the most important governmental grants of monopoly with respect to this industry. In addition, we must attempt to determine the role played by business in obtaining these grants of privilege.

PRORATIONING

The most important element of monopoly in the petroleum industry is *state* prorationing. Even a freshman economics student knows that the essence of monopoly is control over market supply, control over the raw material that goes to make the product. And that same student *ought* to know that such monopolistic control has *never* been achieved in a free market by any one firm or group of firms.

Prorationing in the petroleum industry, however, achieves such monopoly control over crude oil *by law.* Started in the early 1930's, purportedly as a conservationist remedy to the "wastes" of competition in crude oil production, prorationing developed smoothly and logically into a scheme to restrict supplies to estimated demand, that is, to *stabilize* prices at existing levels. In Texas, the largest oil producing state, it works as follows: once every month the three-person Texas Railroad Commission meets to determine how many days oil producers will be allowed to operate their wells that month. The Commission "coordinates" demand estimates from crude oil buyers ("nominations") and other estimates from the Federal Bureau of Mines and sets output quotas per well ("allowables") to fill that anticipated demand. And since the demand is estimated at *existing prices,* the effect of the regulation is to stabilize prices for crude and for petroleum products generally. Most of the other oil producing states have similar regulatory mechanisms.

In addition to fixing prices higher than the free market would, prorationing leads to gross inefficiency in crude oil drilling and production. Because of the artificial output restrictions, the average American crude oil well pumps an incredibly low 15 barrels a day compared to 4,300 barrels a day per Middle East well. And, worse, because until 1965 the regulatory "allowables" were determined *per well,* and since the depletion allowance encourages exploration and drilling, still additional economically unnecessary crude wells have been drilled. This sort of irrational economic over-drilling has frequently led to a premature dissipation of the "gas cap" pressure in the underground oil reservoir, lowering the efficiency of all the wells in the field. Ironically, it was this same "wasteful" situation that supposedly prompted prorationing in the first place!

Actually, it was a crucial court decision in 1889 concerning *property rights* to underground crude oil that spawned the entire controversy. Question: Who owns the crude oil that exists underneath more than one property owner's land? Answer by the 1889 court: No one! Instead, the court legalized the famous "rule of capture" principle which, simply stated, means that anyone who can pump the crude oil *out* owns it. And it was the subsequent economic effects of this decision, coupled with the *illegality of most private agreements* to limit production and output, that eventually ushered in government regulation.

BUSINESS RESPONSIBLE?

The ushering in of government, however, was not some spontaneous act of nature; *business* took an active part in the process. Business groups representing both smaller independent operators and large integrated companies were in the forefront of the "social forces" pushing for "enlightened" regulation. Beginning with World War I, oil men had come to the realization that government was to be a permanent and not entirely unwelcome partner in the oil business. Though there were bitter disagreements (and scandals) over "naval reserves" (oil land set aside for purposes of national security) and rights to offshore oil, and certainly bitter differences between independent and major oil companies over precisely what domestic oil policy ought to be, there was little

"Because of artificial output restrictions, the average American crude oil well pumps an incredibly low 15 barrels a day compared to 4300 barrels a day per Middle East well."

disagreement after 1919 over the fundamental *principle* of regulation. The details were always in doubt, but the *idea* of a regulatory policy was a much a part of the oil industry's grand design as making profits or paying dividends. As A. C. Bedford, the president of the newly divested Standard Oil Company, put it in 1918:

> Government control does not necessarily signify disaster to an industry. If zonal distribution of petroleum products is necessary to supply national needs, zonal distribution will be accomplished. If pooling of tank cars and ships will more efficiently meet national demands, those

facilities will be pooled. If well drilling supplies must be allocated . . . if licensing of jobbers and others is necessary . . . everything that is necessary will be done.

And it would be clear from subsequent events that this statement was not meant to apply solely to wartime conditions.

Business thrusts toward a permanent regulatory arrangement were at first hesitant and unsure, but the direction and intent of the thrusts was unmistakable. When World War I ended, strong sentiment among oil people existed for continuing the National War Service Committee's spirit of cooperation and "supervised competition" with respect to the petroleum industry. Somewhat later, they heartily approved creation of President Coolidge's Federal Oil Conservation Board in 1924, and most endorsed that board's early recommendations for compulsory conservation and even state prorationing. The American Petroleum Institute (API), formed in 1919 to "afford a means of cooperation with the government in all matters of national concern," was consistently advocating cooperation among oil companies, relaxation of the antitrust laws, and self-regulatory schemes to limit production to demand. A majority of the API directors actually favored federal regulation of production in 1927. More explicitly interventionist, the Independent Petroleum Association of America (IPAA) never even pretended to hide behind the mantle of free enterprise; it consistently advocated strong state regulatory control over crude oil production and a tariff on foreign crude oil, and even sanctioned the declaration of martial law and the use of National Guard troops to *make* prorationing work in Texas and Oklahoma during the early 1930's. Much to the delight of the "independents," by the way, the price of crude oil rose from 10¢ a barrel in August of 1931 to 85¢ a barrel in June of 1932.

But it was during the Depression of the 1930's, and particularly with respect to the National Recovery Act of 1933 (NRA), that all measure of pretense concerning "free enterprise" was abandoned by oil businessmen. Under the separate oil code section of the NRA (which was actually written by the American Petroleum Institute), the production of crude was to be legally coordinated with demand. State prorationing laws were to receive federal support. Interstate and foreign shipments of oil were restricted to quotas determined by Secretary of the Interior Ickes and a Petroleum Administrative Board. The Reserve Act of 1932 had already imposed import duties (taxes) on crude and even higher duties on refined products mostly at the urging of the IPAA. By the end of 1933, in summary, government and business interests had succeeded in cartelizing crude petroleum production. As one Standard of California vice president put it in 1933: "If you do not give us price regulation, you can make codes from now to doomsday and you will get nowhere." By 1933, the petroleum industry had gotten somewhere.

"During the Depression of the 1930's all measure of pretense concerning 'free enterprise' was abandoned by oil businessmen."

Four problems that would have made the cartel unstable were all eventually solved. In 1935 the Interstate Compact to Conserve Oil and Gas was created to coordinate and dovetail prorationing decisions in the different states. When the Supreme Court swept the entire NRA away in 1935, the Congress—without hearings—passed Texas Senator Connally's bill (dubbed the Connally "Hot Oil" Act) that made it illegal to transport interstate oil produced in violation of state prorationing requirements. And finally the courts, including the Supreme Court, declared prorationing to be perfectly constitutional since its intent was "conservation" of resources in the public interest with only an incidental effect on price!

The last loophole in the prorationing monopoly was eventually closed by Republican President Eisenhower in 1959. At the intense urging of small independent crude oil producers—and, by the way, in bitter opposition to the position of large oil companies, especially Gulf—mandatory import quotas were imposed on "foreign" crude. Thus, the last vestige of "laissez-faire" in crude production and selling was eliminated, and the industry-government arrangement creating monopoly was virtually complete.

Prorationing is not, of course, the only interventionist arrangement in the oil industry, though it is the most important. There are many other instances where the oil business has been far from a "persecuted minority" when it comes to governmental policy. Some of those instances may have exaggerated the monopoly discussed in the first part of this paper; most clearly have not. Some are condemnable from a libertarian point of view; others are, perhaps, justifiable. In all of them, however, for one reason or another, the industry has not argued consistently for laissez-faire or nonintervention but has sought the help and aid of the state to further its own goals. And, of course, the state has attempted to use the oil industry to fulfill *its* particular vision of political power and influence throughout the world. Just as in free trade, it is only *mutually* satisfactory agreements which are renewed and extended, certainly *both* parties have had something to gain from intervention and regulation.

Take the issue of the depletion allowance, for instance. There is no question whatever that the

tax "allowance" enacted in 1926 was created by and for the very same oil industry under discussion here. And there is also no question that some of the very money that escapes taxation through the allowance, comes back in the form of campaign contributions to, among other things, extend or perpetuate that very "loophole." Thus this device, as usual, serves the interest of both industry and "politics."

Now it is *not* being argued that paying less taxes for whatever reasons is condemnable in any way; far from it. The point, however, is that far from being helpless victims of state action, businessmen, and in particular oil businessmen, have learned to manipulate the political machinery of the state to their own advantage. And the examples can easily be multiplied to discussions of shipbuilding (tanker) subsidies, special zoning exemptions for refineries, federal insurance against foreign expropriation, federal statistical data, and numerous other "advantages" afforded the petroleum industry.

With voluntary cooperation illegal, the door was opened to State and then Federal "conservation" regulation.

GOVERNMENT RESPONSIBLE?

And yet all that has been said so far is not to argue that business, and business *alone,* is responsible for government intervention in the petroleum industry. From Wilson's Administration through Coolidge, Hoover, Roosevelt and down to the present moment, the federal government has pressured industry increasingly for such "cooperation." Certainly one of the overriding issues for the government in this developing partnership has been *military* preparedness—particularly Navy fuel oil requirements. As an indication of the importance of oil to the Navy during the formative years of this policy, Navy Secretary Daniels actually advocated the nationalization of U.S. petroleum reserves in 1920! Increasingly throughout the early 1920's, the American State Department was diplomatically active in attempting to obtain exploration rights for U.S. oil companies in the Dutch East Indies, the Middle East, and especially in Mexico and Venezuela. Rightly or wrongly, the U.S. policy planners feared a domestic oil shortage and frantically encouraged development of foreign crude oil reserves under U.S. corporate control. Given the financial interests of the oil corporations, they could hardly have been expected to discourage this sort of governmental activity.

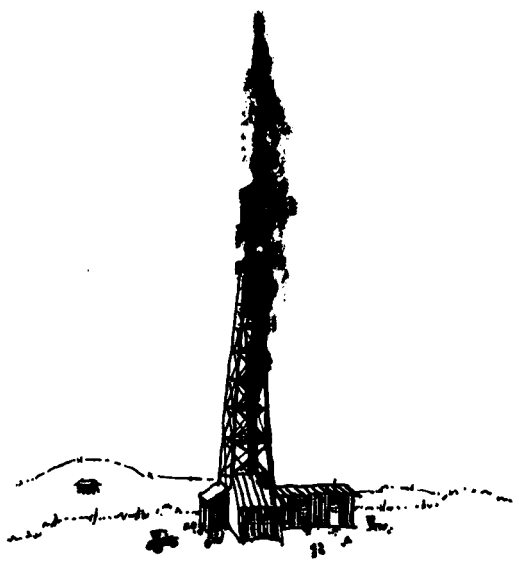
And, finally, the existence of the antitrust laws undoubtedly played a significant role in bringing business and government together. There is evidence to indicate that voluntary attempts to restrict uneconomic crude oil production and further attempts at "unitization" of oil fields to limit waste and increase efficiency were abandoned in the face of antitrust challenges that make such "restraints of trade" illegal. With voluntary cooperation illegal the door was opened to state and then federal "conservation" regulation.

Seen in this light, prorationing and the other restrictive devices were the inevitable climax of an already mixed system of enterprise. Many oil people who fought regulation initially and argued for laissez-faire were eventually persuaded that their efforts were entirely futile and that regulation would come anyway. Rather than *be* molded by the legislation that was to determine the course of their industry, they decided to do the molding themselves in their own interest.

To be "enlightened," they were told—and eventually came to believe—was to go along with increased governmental regulation of industry; there was no turning back now. So much the better that the enlightenment would prove "practical" and eventually turn a profit for the stockholders.

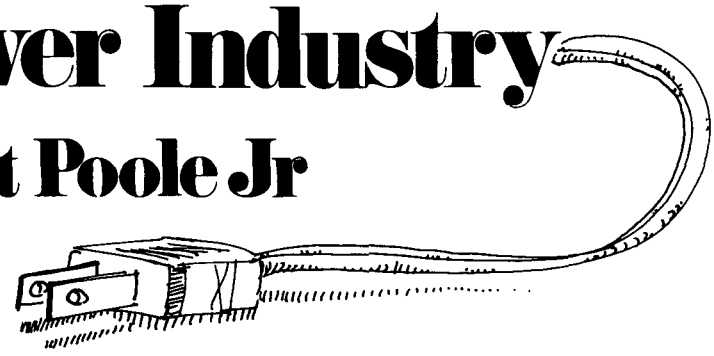
CONCLUSION

In summary then, certain influential businesspeople and business associations *did* play an extremely active role in creating regulatory monopoly in crude petroleum, though the particular circumstances of that support are not totally unambiguous. The only thing that is not ambiguous is that the present antimonopoly actions against the oil companies will not solve the monopoly problem in that industry; it is part and parcel of the problem itself. To that extent, the businessmen involved *are* victims, but victims, ironically, of the very same interventionist policies that they have continually supported for almost 70 years. ◻



How Free Enterprise Returned To The Electric Power Industry

by Robert Poole Jr



Looking back from the vantage point of 1984, it's hard to imagine that only 10 years have passed since the first state abolished its public utility regulation of power companies. As with many other relics of the past, people had grown so used to the idea that public utilities *had* to be regulated monopolies that it took an actual demonstration of the contrary idea to open their minds. Even then, it was quite awhile before people really noticed what was happening, and began to appreciate the differences between the energy suppliers in Shropshire and those in neighboring New Kent.

It all started back in 1974 in the Shropshire legislature. Unbeknownst to the public, George Nelson, one of Governor Miller's closest drinking buddies, was on the board of New Horizons Energy, a spin-off from the aerospace industry which was in the process of developing a commercially feasible solar power cell. In order to have more freedom to market the solar cells, Nelson wanted the state's Public Utility Commission to remove the power companies' exclusive franchises. Governor Miller was sympathetic, having studied economics as an undergraduate and being familiar with the University of Chicago studies demonstrating the ineffectiveness of public utility regulation. Miller quietly drafted legislation to remove all P.U.C. control over power companies, and Nelson worked with a few sympathetic legislators to bury it in the middle of a 30-page bill on school financing. It wasn't until the bill had been passed in a flurry of pre-adjournment legislation that the power companies realized what had happened—and by then the deed was done.

At first the consumerists raised a chorus of protests, only to be drowned out by the thunder of the power companies, warning of the dire perils of cutthroat competition. Alarmed that the power companies should be so opposed to competition, leading consumer groups backed off and adopted a wait-and-see attitude. That left only the power companies demanding a special session of the legislature to repeal the previous repeal—something the tax-weary public was not about to grant, especially in view of the power companies' tarnished image over the 1973-74 energy shortages. And since the legislature met only every other year, people settled down for at least a two-year wait.

Not very much happened the first year. Most power companies raised their rates somewhat to offset higher fuel costs, but none raised them to

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"monopolistic" levels—whether in hopes of rallying public support for a return to regulation or in fear of attracting competition is not clear. And New Horizons sold a few large solar cells to a new resort development. But otherwise things went on just about as always.

In the second year, though, things began to get interesting. In Edgeford, a city of 100,000, financially troubled Edgeford Electric Company raised its rates by 20 percent, setting off considerable public outcry. It wasn't long before neatly dressed salesmen began visiting Edgeford's homeowners, while a Boston lawyer paid calls on most of the city's commercial and industrial leaders. Just one month after the rate increase, the Boston lawyer (who represented Northern Edison Company) presented Edgeford Electric Company with signed contracts from 95 percent of its customers agreeing to switch to Northern Edison at the old rate level, should NE offer service there. Edgeford's management saw the handwriting on the wall and sold out to NE, which promptly extended its distribution system up the state to connect to Edgeford's lines. The old Edgeford generating plant was largely scrapped, except for a few peak-power turbine units that NE installed.

The Edgeford case attracted attention throughout the state. Several economists pointed out that although, economically speaking, the *production* of electricity was a natural monopoly, this did not mean there couldn't be competition in *bidding* to become the producer for an area. This was exactly what had occurred in Edgeford. Over the next few years the same situation occurred in other cities and towns, sometimes in response to rate increases, as in Edgeford, but in other cases as a result of the formation of consumer organizations which invited other utilities to come in and make bids. Many of these attempts were unsuccessful; where the existing utility was already operating very efficiently, the challengers could not offer significant rate reductions.

Overall, though, the fact that such challenges *could* occur shook the power company managements to their bones. Many executives took early retirement and more young MBA's from Harvard, Wharton, and Stanford were hired by Shropshire's power companies during those years than ever before. Obsolescent, inefficient generating equipment was retired; luxury office building projects were cut back, and executive compensation plans came in for considerable pruning. Electric companies discovered profit maximization.

CHANGES IN PRICING

By the end of the second year, the power companies' predictions of doom had proved so far off the mark that they could muster little support for their bill to re-establish P.U.C. control, despite the lobbying power of the P.U.C. and its fellow bureaucracies. The people were in no mood to give the companies back their monopolies. However, once the legislature had adjourned, and their PR efforts had failed, the power companies began their counterattack. In quick succession, companies throughout the state began revising their rate schedules to make the prices charged more closely related to the cost of providing the service. In particular, rural users found themselves facing sharply increased bills, while urban customers got rate reductions. The uproar from the farmers and other country dwellers was predictable. Governor Miller (whose analysts told him that farmers represented 10 percent of the voters) miraculously held firm against calling the legislature back into session, so once again there was a two-year trial period during which to evaluate the effects of the new scheme of things.

Some farmers sold out, since the increased electricity rates, on top of soaring property taxes, proved to be the last straw. Most did a lot of complaining but accepted the increased rates as yet another increased cost of doing business (and after all, electricity represented a rather small proportion of the farmer's total expenses). A number of land developers who had rural subdivisions planned reconsidered them, and several backed out completely. Real estate people noted a small drop in the sales of vacation home properties, but otherwise things went on about as before.

Soon after the distance-based rate changes, the power companies introduced yet another change in rate structure; they called it "peak-load pricing." The energy crunch of 1973-75 had abated somewhat by 1976, but still the threat of brownouts and blackouts remained ever-present, as companies struggled to keep pace with the growth in demand. Pointing to successful demand-based pricing policies in France, the companies began charging considerably more for electricity during high-demand times of the day, days of the week, and months of the year. There was plenty of complaining at first, about "disguised rate increases," and "profiteering," and people started muttering about returning to regulation in 1978. But soon a funny thing happened. The record heat wave of the summer of 1976 saw a string of brownouts and blackouts across all of New England—except in Shropshire. People there turned off their air conditioners and went swimming, or took vacations in Canada, or sweated a lot . . . holding down their demand enough to prevent even one brownout. After that, the complaints about peak-load pricing pretty much disappeared.

CHANGES IN LAND USE

By 1977 and 1978 the impact of distance-based pricing began to have some interesting side effects. Local water districts, under pressure from environmentalists to limit the growth of rural subdivisions, began to emulate the power companies' rate structures. No longer was it just as cheap to develop land out in the boondocks as it was in town; both power and water cost a great deal more the further

the property was removed from civilization. The result was striking—in the short run five planned recreational communities were cancelled outright, and the developers of those under construction saw their projected profits sharply diminished, as the market value of their properties was reduced.

In the space of several years, however, the rate of development had returned to normal—only the location of most subdividing now tended to be adjacent to existing developed areas. Since these locations tended to be less naturally scenic than the more rural ones, the developers were forced to pay closer attention to "environmental" design. (Ian McHarg's *DESIGN WITH NATURE* became required reading for developers, much to the delight of environmentalists.) Instead of being just rows of houses, many new developments emphasized and took advantage of the land contours, the forests and natural vegetation, the cliffs and rock outcroppings. To further preserve the "natural" appeal, the builders began planning ways to make their developments more self-contained, and less dependent on the automobile. They did this by adding small shops and convenience stores, laid out within walking or bicycling distance of most homes; some even built elementary schools as part of their communities.

At the same time, there still remained a demand for property further away from already-settled areas. The problem was to reduce the cost of water and power enough to make development feasible; that, and meeting the increasingly stringent environmental restrictions relating to sewage disposal. What rescued the developers was a combination of aerospace technology and the increasing competitiveness of the energy market in Shropshire. In an attempt to derive earthbound benefits from the space program, NASA and HUD had undertaken a program known as MIUS—Modular Integrated Utility Systems. Various NASA grants supported research and development to apply space program life-support and recycling technology to the design of closed-loop utility systems. By 1979 the first viable systems began to be marketed, by Grumman, Airresearch, New Horizons Energy, Westinghouse, and others—just as the market for alternatives to costly central station electricity in Shropshire really began to boom.

The new systems worked on the principle of getting the maximum amount of energy out of fuel, and wasting as little water as possible. Oil or gas was used to run a set of engine-generators (much like those used in the late 1960's for standby and peak-power purposes), supplemented by solar cell power on sunny days. The "waste" heat resulting from electricity production was used to generate steam for use in heating homes in winter, and for air conditioning (via an absorption system) in summer. Additional steam was produced from the combustion of solid waste, both from sewage and from trash. Finally, all waste water from homes was recycled and treated for re-use, thereby reducing the net demand for fresh water to a fraction of previous levels. Overall an MIUS of this sort ended up consuming about 30 percent less energy than the fuel and electricity required from conventional systems. And by recycling water and solid waste, the MIUS allowed developments to meet the strict environmental regulations of the 1970's.

The availability of MIUS fully awakened developers to the idea of competing sources of power. Although the MIUS-equipped development was still dependent on an outside *fuel* supply, it could be completely independent of the local electric company. Its initial cost was higher (due to the small-scale powerplant and the complicated plumbing), but its lower energy and water costs allowed the property owners to realize long-term cost savings, in many locations. The application of MIUS was not limited to areas beyond the reach of cheap electricity and water; developers of urban shopping centers, office buildings, condominiums, and housing developments often found applications for them as well, in some cases hooking up to the power company as a backup energy source. The power companies countered with special rates aimed at large developments. Other power companies hedged their bets by acquiring oil or gas distribution companies. A whole new marketing psychology was forced upon the power companies, and once again, recruitment of young MBA's was stepped up.

TEN YEARS AFTER

Now that 10 years have passed, it is possible to take an arm's length look at the power industry in Shropshire, and see how it differs from that of states which have continued P.U.C. regulation of this industry. Compared to neighboring New Kent, for example, electricity rates in Shropshire average 5 to 10 percent less overall, though as noted previously, some rural rates are considerably higher in Shropshire, where all users pay their own way. Changes in rates, which don't have to go through long P.U.C. approval hearings (and possible court battles), are much more frequent than in New Kent, though usually of smaller size each time. Shropshire rates change rapidly in response to external events, such as changes in fuel prices and new antipollution regulations. Although power companies in both Shropshire and New Kent face the same federal pollution controls, the Shropshire companies have complied far more readily since they have the freedom to raise their rates to cover the cost of new equipment. And as noted earlier, Shropshire's peak-load pricing policy has almost entirely eliminated brownouts and blackouts, by providing strong customer incentives for conservation during periods of peak loads.

The effects on land use also show up in cross-state comparisons. Although Shropshire is one of the few states which has failed to adopt a State land use plan, it has more of a "planned" look than many of its neighbors. Its changed pattern of land

use, which has left considerable land undeveloped, has attracted national attention. And although MIUS have become popular elsewhere as well, Shropshire is still the home of more of these systems, per capita, than any place else. Nowhere have the MIUS producers found a more receptive market than Shropshire, where power companies have to compete for their business.

And what of the power companies themselves? Despite their years of protestation, Shropshire's power companies are as profitable as those in other states. They work a lot harder at it, however. Their managements set the pace for the rest of the power industry, and since seven other states have recently ended power company regulation, Shropshire's companies are now providing competition-seasoned managers for other parts of the country. The older managers still long for the good old days of exclusive franchises and guaranteed profits, but the new breed of young, aggressive MBA's have found the Shropshire power industry an exciting business environment. They like the freedom to make their own pricing decisions, and enjoy having full-fledged marketing departments. They also enjoy the companies' improving public image, thanks to the absence of blackouts and strict adherence to pollution controls.

Public reaction in Shropshire is largely favorable. Despite the disgruntled farmers whose rates went up, most people are delighted at having the potential of a choice of power sources. They are proud of their state's new land use patterns, and their Yankee independence delights in the fact that it was done without the aid of a new government bureaucracy. They are also pleased with the absence of blackouts, and the relative absence of air and water pollution from Shropshire's power plants.

In short, Shropshire's quirk of an experiment in deregulation has been quite successful. So successful, in fact, that the 1984 legislature has taken the unprecedented action of wiping out the P.U.C. altogether. Nobody is really sure just what changes in the state's taxis, bus lines, commuter airlines, and telephone systems are going to result, but transportation and communication company people from all over the U.S. are flocking to Shropshire. The next 10 years should prove to be even more interesting than the last ten. ◻

NOTES AND REFERENCES

Readers interested in a more technical discussion of the points raised in this article may wish to consult the following articles.

- "Capital Budgeting and Pricing in the French Nationalized Industries," Thomas Marschak, *JOURNAL OF BUSINESS,* January 1960 (discusses peak-load pricing as used in France).
- "What Can Regulators Regulate? The Case of Electricity," George J. Stigler & Claire Friedland, *JOURNAL OF LAW & ECONOMICS,* Vol. 5, October 1962 (discusses the ineffectiveness of public utility regulation, using historical data).
- "Why Regulate Utilities?" Harold Demsetz, *JOURNAL OF LAW & ECONOMICS,* Vol. 11 (I), April 1968 (discusses the various forms of competition in the delivery of electric power).

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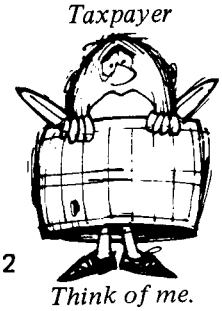

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Warning: Fixed-income investments during periods of inflation may be dangerous to your wealth.

Considering the highly leveraged state of the American economy, it is truly remarkable that so little understanding of fixed-income investments exists today. Nonetheless, there has been a growing interest in recent years in the whys and wherefores of bonds, partly because of the huge volume of new issues that has come to market and partly because of the historically high level of interest these bonds are paying.

The total domestic demand for credit in 1973 was over $170 billion of which well over $60 billion was in the form of marketable corporate and government debt. This was an addition to over $500 billion in already outstanding marketable debt which was at least theoretically available to the prospective bond purchasers in the secondary market. In 1973 approximately $15 billion in newly issued bonds was taken down by individual investors. All of which indicates that a substantial investment alternative to stocks, real estate, gold, silver and other commodities is in existence. The objective of this article is to provide the reader with a brief overview of this alternative market. It is an analysis of the various opportunities open to an individual *within* the market for fixed-income securities. It is mute on the question of whether or not bonds are an attractive alternative within the entire investment universe. The reader can make that judgment for himself, hopefully with the above "warning" in the forefront of his thinking.

Until very recently the market for fixed-income securities has been distinctly unfriendly to individual investors. Individuals, in order to enter the debt market, have had to give up significant amounts of both yield and marketability. The advent of bond mutual funds has gone a long way to alleviate this problem, albeit with the creation of some new problems of their own. While access to the bond market has been made easier, the acceleration of inflation since 1965 has made the market considerably more treacherous.

The fixed-income investor has a myriad of alternatives available. He may buy long and short term debt issued by industrial corporations, public utilities, railroads, the Federal Government, state and local governments and banks. In addition to the issuing entity and the maturity date, a bond buyer must choose between a spectrum of coupons on outstanding debt ranging from as low as 0.5 percent to over 11 percent. How does one go about determining which of the literally thousands of outstanding bonds represent the best values for a given objective? We will examine the components of the bond market after a short discussion of the theory of interest rates and inflation.

INTEREST RATES AND INFLATION

In a free economy interest rates and, hence, bond prices are determined by the value of time. The lender is willing to forego the use of his capital during the term of the loan at a given price. The borrower, in turn, is willing to pay that price (the going market rate) because he believes he can realize a higher return on the capital than he must pay to borrow it. It is in this manner that capital is put to its most efficient use by the mechanism of a free market. The time value of money is itself a function of the real marginal productivity of an economy and the real rate of savings.

Given the hypothesis of a free economy (which entails no government control of the quantity of money) interest rates would fluctuate only very gradually and there would exist a slightly positive yield curve reflecting the increased risk involved in lending money for longer periods of time. Chart I illustrates the point that fluctuations in rates would occur primarily at the short end of the yield curve, acting as a self-regulatory device which would discourage over-investment and prevent the cyclicality that is associated with so-called "mixed economies."

Because we do not have a free economy in the United States interest rates fluctuate violently throughout the yield curve. In adversity, however, there is opportunity. The bond market is not a particularly efficient one today, partly due to these fluctuations. At any point in time there exists self-evidently over and under valued bonds. The astute bond investor who can take advantage of the inefficiencies in the market stands to gain quite a bit

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more than just the "going rate of interest" from his investments. But we're getting somewhat ahead of ourselves.

Any analysis of bonds in today's economic environment must include a discussion of inflation. It is unfortunately true that inflation is the single most important factor to be considered by anyone contemplating fixed-income investments. Inflation has been blamed on everything from coercive labor unions to greedy businessmen. The real cause is government printing presses. As long as the government possesses the monopoly granted it through the Gold Reserve Act of 1934 and the legal tender laws (which prevent competition with the government in the minting of coins or printing of paper currencies and force the acceptance of fiat money in settlement of debts) it has the means of controlling the quantity of money and the extension of bank credit through the Federal Reserve System. Because of this the inevitability of inflation is assured.

The scenario is a simple one. Politicians need votes to get elected. They can get votes by promising something for nothing to the voters. When it comes time to produce the something the politicians have three choices to finance their favors. They can increase taxes, they can borrow from the public or they can steal from the public by printing currency. In practice, of course, all three methods are used but the last one is by far the most popular because it is the least obvious and the most effective. It is also the only one which creates inflation.

Simply stated, when more dollars are chasing relatively fewer goods and services the price of those goods and services will rise. Until very recently most economists and investment analysts were oblivious to the causal relationship between the quantity of money and inflation. They accepted the erroneous Keynesian explanation of inflation as strictly a "cost-push" or "demand-pull" phenomenon that was an inherent element in the cyclicality of a "free" economy but which could be controlled through discretionary fiscal action on the part of Government.

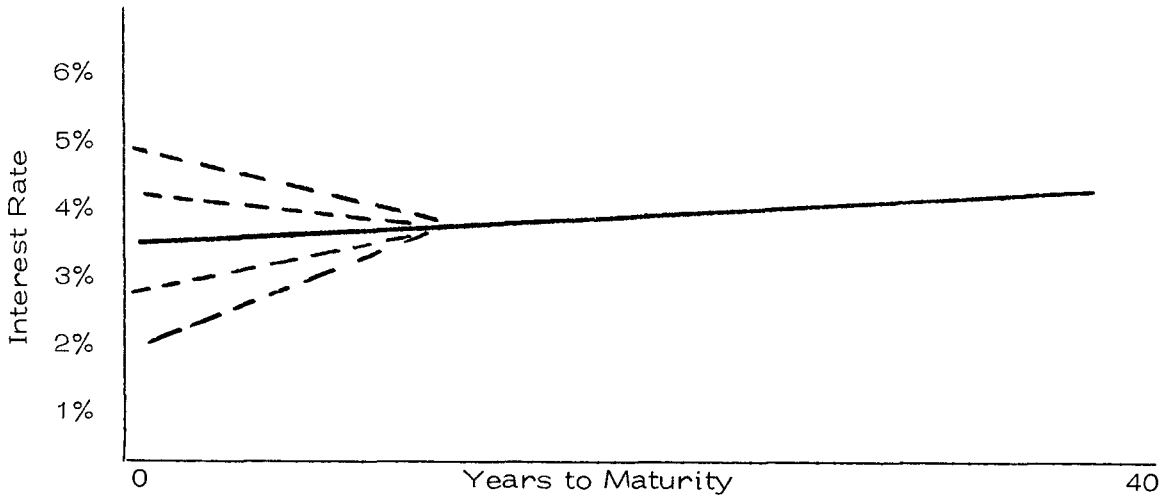
Why does inflation, caused by an increase in the quantity of money, lead to higher interest rates? There are three separate and distinct effects on interest rates caused by an addition to the quantity of money: the liquidity effect, the income effect and the price expectations effect. These have been documented by Gibson[1] and Sprinkel[2] in separate works, as well as by others.

Says Sprinkel concerning the liquidity effect: "The conventional Keynesian analysis of the effect of an increase in the money supply on interest rates argues that to induce money holders to voluntarily hold an increased supply of money, interest rates must decline. Until recently, most economists would have used only the above version in explaining the impact of a changing money supply on interest rates. Some would have argued that the very forces by which the money supply increases in our economy, i.e., largely open market purchases of Treasury bills, leads to higher prices for Treasury bills and ultimately to lower rates on other assets as portfolios are adjusted to the lower Treasury bill rate. This analysis is indeed correct so far as it goes, but it stops much too soon and, in fact, misses the major effect of a changing money supply on interest rates."[3]

The second and briefly delayed response to the new money in the system is an increase in incomes resulting from increased spending. The tendency of this income effect is to raise interest rates back to the same level that existed prior to the influx of money. The relationship between savings and investment will have reached its previous equilibrium level.

The price expectations effect is the final and most important influence on interest rates and the one that is completely ignored by Keynesians. Once a reasonably full employment of resources has

CHART I
FREE MARKET YIELD CURVE



"As long as the government possesses the monopoly granted it through the Gold Reserve Act of 1934 and the legal tender laws . . . the inevitability of inflation is assured."

been attained in the economy the income effect will drive prices higher, thus reducing the purchasing power of the dollar. Lenders, recognizing that the real value of the money they are lending is greater than what they are receiving when the loan is paid off, will demand a higher rate of interest to compensate. The longer prices continue to rise, the greater the impact of the price *expectations* effect is on interest rates and the further out along the yield curve interest rates are increased. Chart II, which shows the consumer price index and the money supply, tends to confirm the price expectations theory of interest rates.

Armed with the knowledge that inflation is bad for bonds, we can now venture into the real world of bond investing. There are three basic means by which an individual can intelligently participate in the long term bond market: municipal bonds; bond mutual funds; and selective purchase of unreasonably depressed corporate bonds. Short term debt instruments will be discussed later.

TAX-EXEMPT BONDS

Many investors who do not have the time or inclination to do otherwise adopt a simple "buy and hold to maturity" approach to the bond portion of their investment portfolio. Those who do so should at least be concerned with the *after-tax* return that the bond provides. Since the debt issued by state and local governments is not subject to federal taxation[4] it most often is the appropriate vehicle for this type of investment policy. Chart III illustrates the yield a taxable bond must provide to equal the after-tax return on a municipal bond based on 1973 federal tax rates for those filing separate returns.

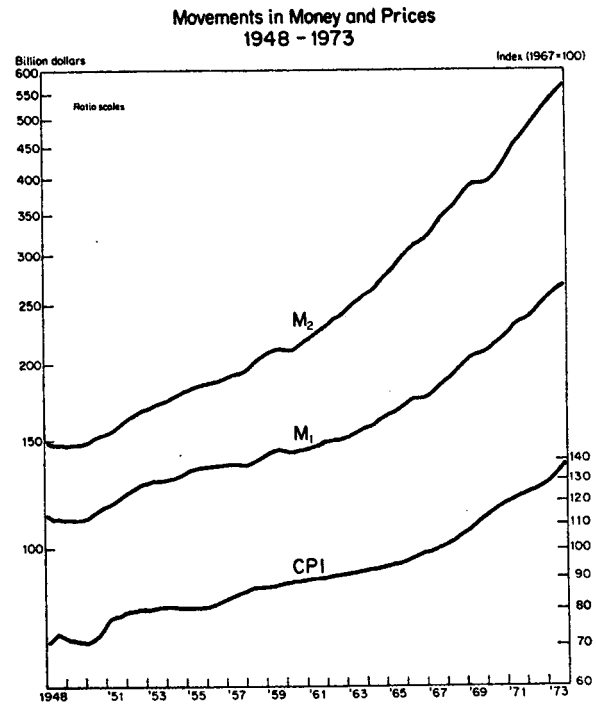
The specter of some individuals earning income exempt from taxation has, predictably, aroused the ire of politicians seeking to fatten the public coffers. Since the passage of the Federal Income Tax Law in 1913 the Internal Revenue Code has contained a section exempting from taxation the interest received on "the obligations of a State, a Territory, or a possession of the United States, or any political subdivision of any of the foregoing."[5] The federal government has recently increased its attacks on this exemption in the name of "tax reform" and the prudent investor would do well to keep an eye on pending legislation in Washington that would affect the status of tax-exempt bonds.

Because subjecting municipal bonds to federal taxation would increase the cost of borrowing for local governments (and thereby pit politician against politician) it is probably safe to assume that the federal government will "reimburse" the municipality under whatever plan is adopted. The key factor to watch out for is the status of interest on outstanding tax-exempt debt. If it immediately becomes taxable or becomes so upon resale in the secondary market (don't let doctrines like *ex post facto* lead you to think it won't happen) the price of such bonds will drop dramatically to reflect the higher, taxable yield. On the other hand, if outstanding tax-exempts were to remain so, the price of these bonds would rise appreciably to reflect their newly created scarcity value.

As of now, however, tax-exempt bonds are hardly scarce. New issues of state and local debt have been averaging over $20 billion annually in recent years. Nearly $200 billion of such debt is currently outstanding with approximately half of the total owned by commercial banks and about 25 percent owned by individuals. Because of the importance of banks in the municipal bond market they can provide a useful input in terms of the timing of buy and sell decisions. When money is relatively tight and business loan demand is high banks will tend to liquidate their investment holdings to accommodate corporate borrowers. As a rule of thumb, the latter stages of this cycle proves to be a relatively good time to buy municipal bonds, as prices are depressed and yields high. As business expansion slows, so does demand for bank credit and banks come back to the municipal market with their excess funds, thus (in theory) driving the price of tax-exempts higher.

The two major forms of municipal debt are general obligation bonds and revenue bonds. General

CHART II



obligation (or G.O.) bonds are called so because they are backed by the total taxing power of the municipal authority. They are generally considered to be better credit risks than revenue bonds which depend on the income generated from the project that was financed by the bond issue to pay interest and principal. In the East and Midwest many state highway systems have been financed by revenue bonds with the bond being secured by revenue from highway toll charges. More recently, huge amounts of capital have been raised for pollution control by municipalities issuing revenue bonds.

We shall make the point later that corporate bonds can offer unusual opportunity when their prices are unduly depressed due to economic events. So, too (but to a lesser extent), can the selective municipal bond purchaser take advantage of transitory developments to maximize his yield. If, for instance, one had decided to commit some capital to municipal bonds early in 1974 the most significant distortion (and, hence, opportunity) in the market was the relatively high yield of highway revenue bonds due to concern of investors over the gasoline shortage. The yield advantage of toll revenue bonds over G.O.'s in early 1973 was only 20 basis points (100 basis points = one percentage point) and had widened to 70 basis points a year later. Since these yields are for bonds with 30 to 40 year maturities, the *transitory* energy crisis provided the long term municipal bond investor with a relatively good buying opportunity. Chart IV demonstrates this yield relationship.

The appropriate strategy to employ when investing in the municipal bond market is one of buy and hold. The secondary market for tax-exempts is simply too thin (i.e., illiquid) to provide an opportunity for profitable portfolio shifts. Unlike the market for corporate bonds, the municipal market absorbs secondary sales only grudgingly and often at as much as 200 basis points higher yield (meaning at sharply lower prices) than one would receive if similar bonds were being purchased. This is, of course, especially true for individual investors as opposed to banks and insurance companies which can command more reasonable prices with their multimillion dollar blocks. Thus, if you buy a tax-exempt bond with the intention of selling at some point down the road, be prepared to part with the bond at a substantial discount from its "true" market value.

What about the tax-exempt bond mutual funds one hears so much about lately? Can't they increase the total return to the investor by astute management of large blocks of bonds? In a word: No. Many people buy these funds thinking that they are receiving "professional management" by doing so. Nothing could be further from the truth. The secondary market for tax-exempts is too inefficient to allow for portfolio management, even for large blocks. The *only* advantage of a tax-exempt bond fund is diversification. Unfortunately even this feature is negated by the undue risk that virtually all such funds assume.

Tax-exempt bond funds are sold on a front-end load basis. That is, the investor pays a sales charge of anywhere from 3½ percent to 4½ percent of his capital to the underwriters of the fund. Since many potential purchasers of this type of fund are aware of the *general* level of municipal bond interest rates the sponsors of the fund tend to buy the highest yielding tax-exempts available in order to show a net yield (after sales commission) that approximates the yield on well-known, high quality municipal bonds. In order to accomplish this the sponsors generally put together a portfolio of very low quality debt. A recent study by *BARRON'S* [6] noted that the largest marketer of tax-exempt funds has been Merrill Lynch, Pierce, Fenner & Smith, which, in association with Bache & Co. and the now defunct duPont Walston Inc., has sold over $1 billion of a series called the Municipal Investment Trust Fund. This fund invests heavily in revenue bonds including such low-grade paper as hospital and urban development

CHART III
TAXABLE YIELD EQUIVALENTS

Tax-Exempt Coupon:	4%	4½%	5%	5½%	6%	6½%	7%
$12,000	6.3	7.0	7.8	8.6	9.4	10.2	10.9
16,000	6.9	7.8	8.6	9.5	10.3	11.3	12.1
20,000	7.7	8.7	9.6	10.6	11.5	12.5	13.5
24,000	8.0	9.0	10.0	11.0	12.0	13.0	14.0
28,000	8.5	9.6	10.6	11.7	12.8	13.8	14.9
32,000	8.9	10.0	11.1	12.2	13.3	14.4	15.6
40,000	9.5	10.7	11.9	13.1	14.3	15.5	16.7
50,000	10.5	11.8	13.2	14.5	15.8	17.1	18.4
60,000	11.1	12.5	13.9	15.3	16.7	18.1	19.4
80,000	12.5	14.1	15.6	17.2	18.8	20.3	21.9
100,000	13.3	15.0	16.7	18.3	20.0	21.7	23.3

revenue debt. The chances of default on a number of the bonds held in a typical M.I.T.F. greatly outweigh the relatively low yield advantage they offer over better grade paper.

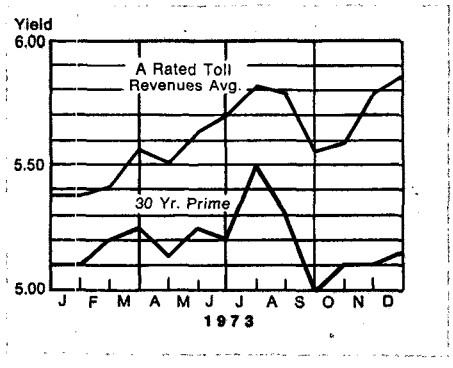
The second largest issuer of tax-exempt funds is John Nuveen & Co. Inc. The Nuveen Tax-Exempt Bond Fund series is approaching $900 million. This series is perhaps even more guilty than M.I.T.F. of "reaching for yield" at the expense of safety. A check of Fund 53 of this series reveals a portfolio consisting of such nifty debt as the Township of Middletown, New Jersey, Sewer Revenue Bonds; the City of Farmington, New Mexico, Pollution Control Revenue Bonds; and the Tulsa Industrial Hospital Revenue Bonds. While both Nuveen and Merrill Lynch claim to make a secondary market in their funds, any substantial net sales would cause both firms to mark down the net asset value of the portfolios dramatically. If the secondary market for municipal bonds in general is bad, the secondary market for the types of bonds held in these funds is practically nonexistent.

Incidentally, for you conflict-of-interest fans, most sponsors of tax-exempt bond mutual funds underwrite a significant portion of the bonds that they purchase for their funds. Coincidentally, many of the smaller, hard to market issues that they underwrite are the ones that find their way into the mutual funds.

Having berated the tax-exempt funds for ignoring quality standards, we will now argue that a buy and hold strategy (which we believe is the only appropriate one for municipal bonds) *should* emphasize the lowest quality bonds that the investor considers "money good" (chances of default on interest payments are negligible). This is essentially a subjective judgment and the rationale is: Why buy an AAA-rated bond that yields less than an AA- or A-rated bond if you are confident that the lower rated securities are money good? An individual may even decide to assume the same level of risk that the bond funds do (although we would advise against it) but there is no reason why he should also pay a 4 percent sales charge for the privilege.

CHART IV

MUNICIPAL BOND YIELDS--GENERAL OBLIGATIONS AND REVENUES



After a little research into quality standards and the relative attraction of G.O.'s versus revenue bonds the next step for the potential municipal bond buyer is to get a list of upcoming new issues from a broker. To repeat, it is *not* wise to buy in the secondary market unless you have a good knowledge of bond prices. To determine if the new issue you are interested in has been fairly priced consult *THE BLUE LIST,* a publication of municipal bond offerings (available in any brokerage office) that should give you a reasonable idea of where the market is that day. The appropriate tax-exempt bond can then be purchased at virtually the same price that the bond funds would pay for it.

"When the projection is for higher interest rates, capital should be shifted to shorter maturity bonds or cash to avoid the expected decline in long term bond prices."

One last note on municipal bonds. Because the discount from par value is treated as a taxable capital gain, municipal bonds with low coupons selling below par yield more than comparable current coupon bonds selling at par. This is just the reverse of the case with taxable bonds and is due to the fact that part of the total return of the discount municipal bond is taxable. Thus, it must yield more to provide an after-tax yield similar to the current coupon tax-exempt. Municipal bonds are bearer (as opposed to registered) bonds and many an unscrupulous individual has been able to increase his tax-free return by buying discount municipal bonds and not reporting the cost to the IRS when the bond matures. As an example, in March of this year *The Blue List* quoted a top quality Los Angeles G.O. with a 4.40 percent coupon, maturing in 1981 at a yield to maturity of 4.10 percent and a discount bond of the same municipality with a coupon of 2.50 percent also maturing in 1981 at a yield to maturity of 6.00 percent. The lower the coupon, the greater the yield before taxes for municipal bonds.

BOND PORTFOLIO MANAGEMENT

The second of the three basic methods through which we believe an individual investor may intelligently participate in the long term bond market is taxable bond mutual funds. The corporate and federal government bond markets are many times more efficient than the municipal bond market, thus allowing a bond portfolio manager to shift capital from one sector of the market to other sectors without incurring prohibitive transaction costs. The main thesis behind buying corporate bond funds is that a total return significantly greater than that

provided by interest payments alone can be achieved by selectively purchasing relatively undervalued bonds and subsequently selling them at a profit. This, then, adds a capital gain to the income return. Chart V shows the total return for the Solomon Brothers High Grade Long-Term Bond Index relative to the coupon return alone.

Just how much can the investment return be improved and how is it accomplished? These questions must be answered before a corporate bond fund can be purchased on anything other than blind faith. Let us, then, briefly discuss the theory of bond portfolio management.

The implementation of a bond management program is predicated on the fact that there always have been and will continue to be significant shifts in relative values within the bond market. Some bonds will always possess more opportunity for favorable price performance than others at any given point in time. The portfolio manager should view bonds as dynamic, rather than static, investment vehicles that possess opportunity for capital growth as well as income. As Chart VI points out, individual bonds often behave in very dissimilar manners.

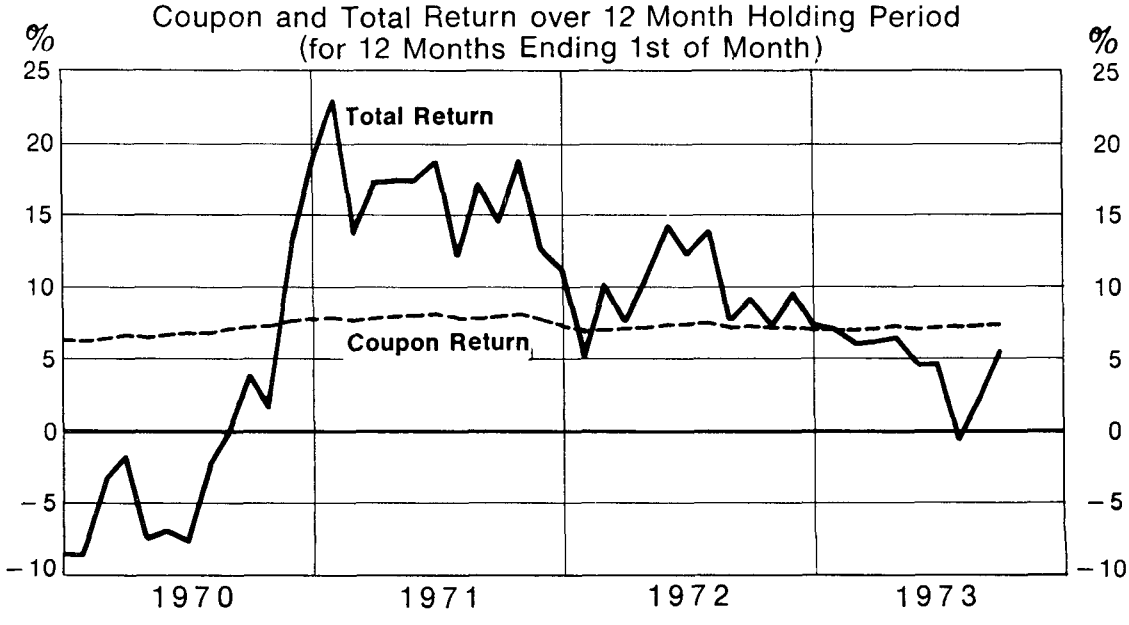
This "total return" approach to bond management involves three basic levels of investment strategy. The first level, and the one of greatest importance to the total performance of the portfolio, is that of structuring the weighted average maturity profile of the fund to reflect a projection of future interest rate levels. In general, when the projection is for higher interest rates capital should be shifted to shorter maturity bonds or cash to avoid the expected decline in long term bond prices. Conversely, long term bonds should be emphasized when the projection is for lower interest rates. Many bond funds realized substantial profits in the rally in bond prices in late 1970, for instance, when rates declined sharply from levels approaching 10 percent. As discussed previously, a close scrutiny of Federal Reserve policy can be most helpful in projecting long term interest rates.

Having established an appropriate maturity profile for the portfolio, one then proceeds to invest (within those maturity parameters) funds in the most attractive *sectors* of the market. Sector analysis, as the second level of bond management strategy, concerns itself with three main factors in bond valuation: coupon, issuer and quality. Each of these factors represents a distinct sector within the overall bond market. The constantly changing interrelationships of these sectors present substantial opportunity to the skilled portfolio manager.

Probably the most important of the sectors is the bond coupon. The relative values of discount, current coupon and premium bonds depends both upon their present price relationships and the future direction of interest rates. A fact of which few investors are aware is that coupon payments on an 8 percent, 30 year bond priced to yield 8 percent (i.e., at par) account for only 25 percent of the total dollar return over the life of the bond. The other *75 percent* consists of the return derived from reinvested coupon payments. Thus, *in general,* the higher the assumed reinvestment rate (read: the more inflation one anticipates), the less attractive discount bonds are. This is because less of the yield from discounts is comprised of coupon payments, thus reducing the amount of money that can be reinvested at higher interest levels. Interestingly, if one assumes *no* reinvestment of coupon income, deep discount bonds almost invariably provide a greater total dollar return to maturity than do current coupon bonds.

The next sector in terms of importance is that of the issuing entity (e.g., governments, railroads, industrials, utilities). Relative values within this sector

CHART V



tend to be based on the supply of bonds available from a given type of issuer as well as the economic factors affecting the specific industry involved. Different issuers often have different terms associated with their debt. For instance, the call protection on utility and industrial bonds is 5 to 10 years, respectively, while railroad equipment trust certificates are noncallable.

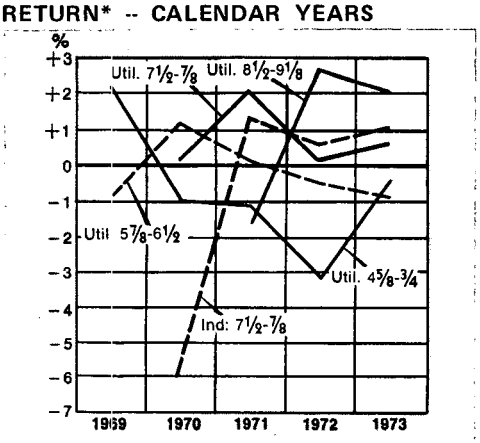
The third basic sector subject to analysis is that of bond quality as represented by the ability of the borrowing entities to promptly pay interest and principal when they are due. United States Government obligations are generally considered to have the highest quality and, therefore, yield the least because the investor doesn't face the possibility of default (or so they tell us). As the quality of bonds lessens the yield or interest rate the issuing entity must pay to its lenders increases.

Using historical data it is possible to determine an appropriate or normal yield spread between differing qualities of bonds. When these spreads get out of line, appropriate action on the part of the bond fund portfolio manager should be taken. Since 1968 the spread in basis points between high and low rated bonds has ranged from as little as 35 basis points to as great as 280. Clearly, opportunity exists here to improve the overall return of the fund. Generally, quality spreads narrow during an economic boom and widen during a recession. It would follow, then, that high quality bonds should be purchased when the economy is strong since very little extra income can be gained by investing in lower quality, higher risk bonds.

The final, and least important, level of bond management strategy is that of arbitrage. Most investors view bond management as consisting almost entirely of arbitrage or "like-for-like" swaps where yield differentials in similar bonds are taken advantage of. Such is not the case. Real arbitrage opportunities are very scarce and offer far less opportunity than does a program of structuring the bond fund's portfolio in a manner consistent with interest rate projections and sector analysis.

CHART VI

INCREMENTAL RELATIVE PERFORMANCE ABOVE THE COMPOSITE RETURN* -- CALENDAR YEARS



*Based on Salomon Brothers High Grade Corporate Bond Performance Index. Descriptive memo on request.

THE BOND FUNDS

The theory of bond management may sound good, but does it work? If done intelligently the answer is yes. We know of one major investment counseling firm managing over $400 million in discretionary bond funds that have shown a compounded annual rate of return of 12.5 percent from the middle of 1970 through 1973. This is 25 percent better than the figures for Salomon Brothers High Grade Long-Term Bond Index which show 10.0 percent compounded for the same time period. So it *can* be done. The question one is faced with is which bond fund to purchase. How do you tell them apart and what are the relevant considerations?

Of primary importance in judging a bond fund is the experience of the portfolio managers. This is often information that is unavailable in the prospectus of a bond fund but a competent stockbroker should be able to get the information for you. As a rule of thumb, managers with bond experience working for investment counseling firms are more attuned to dynamic bond theory than are bank portfolio managers. Good bond managers are few and far between as evidenced by the fact that a major California bank recently raised over $50 million in offering its new bond fund but was not able to locate a portfolio manager for some two months subsequent to the offering.

Next in importance to the portfolio manager himself is the investment philosophy of the fund. Many bond funds emphasize a high level of current income. Such funds very often concentrate their holdings in high coupon, "premium" bonds (i.e., those selling above par value) and bonds of questionable quality in order to maximize yield. These funds, in addition to assuming more risk than they should, are subject to having much of their portfolio called away from them should interest rates decline. A maximization of current income philosophy may also indicate a low level of investment activity (which is fine for a common stock mutual fund but not for a bond fund).

Maximization of total return (i.e. recognition of capital gain opportunity) is the investment objective that can make taxable bond funds competitive with municipal bonds on an after-tax basis. These funds generally have a high level of portfolio turnover (reflecting the dynamic nature of the bond market) and, if intelligently managed, can be quite attractive investment vehicles.

Management fees on bond funds are generally ½ of one percent of the market value of the fund, which ain't cheap but which can be worth it if a competent job is done. Fees over ½ of one percent are extremely hard to justify and are best avoided. A last consideration is the size of the fund. Funds over

$100 million in size will have increasing difficulty in maximizing total return as the portfolio simply becomes overloaded with too many and too large holdings.

FIRE SALES

The final area of opportunity for the individual bond investor is that of unreasonably depressed corporate bonds. Probably the classic example of how significant gains can be made through this type of investing was in the summer of 1970 immediately following the Penn Central bankruptcy. Virtually every bond that was issued by a corporation that even *sounded* as if it might be associated with a railroad dropped precipitously in price. Most rail bonds that were purchased during those bleak days have proven to be rewarding investments. Ironically, one of the best of the group was the Pennsylvania Co. 9% debentures due in 1994. They could have been purchased in 1970 at $48 ($480 per $1000 par value) which was a yield to maturity of 19 percent. At this writing the bonds are selling near par. Less dramatic but nonetheless profitable was the Missouri Pacific Railroad 5% debentures due in 2045 which went from $38 to a recent price of $53.

Examples of this nature abound in industries other than railroads. Both the airline and steel industries were thought to be in serious trouble in 1970 and while a good argument could have been made for avoiding the stocks of companies involved therein, there was never any serious question as to the credit worthiness of a Western Airlines or a Jones & Laughlin Steel. Yet the J & L 6¾% of 1994 could have been purchased for $51 and the Western Airlines 5¼% of 1993 was selling as low as $37. Recent prices were $74 and $100, respectively. The Western Airlines bonds appreciated by some 170 percent.

The secret to buying bargain bonds in a "fire sale" atmosphere is to know the balance sheet of the company involved. If the assets are productive and marketable and the debt is not onerous, significant opportunities can exist in distressed company bonds.

SHORT TERM INVESTMENTS

It is even more difficult for the individual to successfully participate in the short end of the market for fixed-income securities than it is in the long end of the maturity scale. Savings accounts are a rip-off of the first degree. Many banks offer pooled finance paper funds which may be purchased in blocks as small as $5,000. This service is generally available only to trust department customers but it is a reasonable value if available. Treasury bills may be purchased in blocks of $10,000 from most banks although one should be wary of $20 to $30 acquisition costs that can have a significant negative effect on very short (30 and 60 days) bills. Tax-free tax anticipation notes are also available now at quite competitive after-tax yield for very short maturities.

"Those held responsible (at the point of a tax collector's gun) for paying the interest on government bonds have no moral obligation to do so."

A new alternative for the short term individual investor has recently emerged in the form of the Reserve Fund, Inc. This is a no load, open end mutual fund that invests in a diversified portfolio of certificates of deposit and bankers' acceptances. As of this writing the fund was yielding (after a management fee of 1/2 percent) approximately twice what was available from 1 bank savings account. Money can be deposited or withdrawn from the fund on a daily basis in units as small as $1,000, with interest credited daily. Write to the Reserve Fund, Inc., 1301 Avenue of the Americas, New York, NY 10019, for further information.

SUMMARY

We hope to have demonstrated some of the more rational approaches an individual investor may take toward the bond market. We advise against individuals trying to "swap" bonds on their own. Municipal bonds should be bought with the idea of holding them to maturity and only on a new issue basis unless you have *extreme* confidence in your broker.

In discussing bond funds we purposely ignored the numerous funds that specialize in U.S. Government securities because they simply yield less than other taxable high quality bonds. With respect to government bonds (federal, state and local) we will end with the comment that many libertarians avoid purchasing bonds that depend on taxing power to pay principal and interest. This is a moral issue with which we are in sympathy. The people responsible for paying interest on corporate debt have taken that responsibility on voluntarily. Those held responsible (at the point of the tax collector's gun) for paying the interest on government debt have no moral obligation to do so. ◻

NOTES & REFERENCES

[1] William E. Gibson, *JOURNAL OF POLITICAL ECONOMY,* Vol. 78, No. 31, pp. 431-55.

[2] Beryl Wayne Sprinkel, *MONEY & MARKETS* (Dow Jones Irwin 1971).

[3] *Ibid.,* p. 208.

[4] Care should be taken to buy municipal bonds within one's state of residence since out-of-state bonds are often subject to state income tax.

[5] Gordon L. Calvert, *FUNDAMENTALS OF MUNICIPAL BONDS* (Investment Bankers Association of America 1968), p. 115.

[6] David Hershipps, *BARRONS,* Feb. 25, 1974, p. 3.

Note: Charts IV, V, and VI are reproduced here courtesy of Salomon Brothers, New York, NY.

PAUL GOODMAN: AMERICAN ANARCHIST

by Ian Young

August of 1972 saw the death of a great libertarian, one of America's finest and most valuable citizens—a passionate, compassionate man of wide interests and deep insights.

Paul Goodman called himself a "conservative anarchist"; he was an individualist with a social conscience, who for 40 years proposed extreme, exciting, and sensible solutions to the often mundane and confusing problems of North American life.

His many books included fiction, drama, poetry, cricitism and studies in psychotherapy, linguistics, politics, religion, sociology and city planning. Yet his unorthodoxy relegated him to relative obscurity until the late 1950's. Then, with the publication of his now-classic book on the difficulties of adolescence and youth in North America, *GROWING UP ABSURD,* he leapt into prominence and remained a well-known and controversial public figure until the end of his life.

Born in 1911 in New York City, he enjoyed a fatherless boyhood in the slums. There, he attended Hebrew school "forever" and was a brilliant student in high-school and college. He obtained "the best education poverty could buy" by sitting in on classes at Columbia and Harvard, and when he began writing in the early 1930's, he was too poor to buy stamps, so he bicycled around New York moving his short stories from one magazine office to another.

Thus he began his prolific production of books, pamphlets, tracts, articles, texts and exhortations. He seems to have been a libertarian by temperament from the first, never having to go through a period of Marxism as did so many intellectuals in the '30's, including those who later conspicuously switched sides, like James Burnham and Max Eastman.

"Many of my intellectual generation sold out," he said. "First to the Communists, then to the organized system, so that there are very few independents around that a young man can accept as a hero." Goodman was certainly one of those "independents" and for many young people in the late 1950's and the 1960's, he became that hero. He saw American society as "deficient in many of the most elementary objective opportunities"; as corrupting, repressive, anti-individualistic, corrosive of true community. His books, no matter what their ostensible subject or field, were essays toward easing and correcting those deficiencies and restoring to America, and especially to its young people, a potential for a more creative, integral, and satisfying life.

His solutions to a wide range of dilemmas were extreme and often brilliant. Sometimes, they were startling in their simplicity, as was his proposal to alleviate the loneliness of many old people and the emotional deprivation of many children by bringing the kids and the old folks together.

He was against compulsory institutions of all sorts and anticipated another libertarian psychologist, Thomas Szasz, in advocating the closing of the mental hospitals, allowing most of the inmates to roam the countryside as "local eccentrics or loonies." In his book *THE COMMUNITY OF SCHOLARS,* Goodman advocated doing away with university administrations so that teachers and students could get down to the enterprise of learning unhampered by bureaucracy. The book was attacked, of course, in the establishment press. The leftist *NEW REPUBLIC* called it "fundamentally irresponsible." (What would it have thought of his further proposal—the total dismantling of that juggernaut, the state school system, and its replacement by a multiplicity of diverse, voluntary teaching and learning arrangements?) In *PEOPLE OR PERSONNEL,* Goodman analyzed and attacked the growth of America's vast corporate enterprises, theoretically privately owned but in fact often auxiliary fiefdoms of the federal government.

Goodman voiced his views with such cogency and persuasiveness that in spite of his radical reputation he was often invited to give conferences, universities and city councils the benefit of his ideas on social change, educational methods, or town planning. Sometimes, they even took his advice.

He was a living refutation of the authoritarians' claim that egoism and individualism are "antisocial." His uncompromising individuality manifested itself in a deep concern for his society and a need personally to try to improve that society in any way he could. Though sometimes sneeringly called a "liberal" by spokesmen of the New Left, he was

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always unpopular with the liberal intellectual establishment. When America was awash in a flood of enthusiasm for John Kennedy and his hangers-on, Goodman described them as "not liberals (but) devils. They have no principles, no philosophy. They're just power-hungry." "Our mistake," he wrote years later, "is to arm anybody with collective power. Anarchy is the only safe polity."

His pamphlet *THE BLACK FLAG OF ANARCHISM* contained a concise description of Goodman's political stand:

> Anarchism ... is against existing social and political systems, but it proposes to replace them with some form of ordered, decentralized, individualistic community cooperation. Anarchism is to come about not through violent revolution, since that creates its own rigid counter-organization, but through eventual mass understanding and increased practice of anarchist living ... Anarchism would run a complex modern society not by increased centralization but by using cybernetic techniques to make small communities viable. With modern technology it should be possible for very small units to maintain their own sources of energy, their own small-scale industrial units, their own computerized agriculture, and so on. Anarchism is not coercive. It holds that a people free of governmental, parental, bureaucratic and financial control would act in general harmony. The basis of such harmony would be each individual's freedom, his liberty to join and to contribute as he chose.

ICONOCLAST

Goodman's romantic and sexual life was as unorthodox as his political thinking. He was married to his wife Sally for 30 years and had two children, but never took out a marriage license. "To license sex," he said, "is absurd." His freely admitted homosexuality cost him jobs at three "highly liberal and progressive" academic institutions. "Frankly," he related, "my experience of radical community is that it doesn't tolerate my kind of freedom. ... I have been told that my sexual behavior used to do me damage in the New York literary world. It kept me from being invited to advantageous parties and making contacts to get published." From its beginnings, Goodman was a strong and outspoken supporter of the Gay Liberation movement.

His homosexuality was a strong force in his life and writing; it embodied his individualism and outsider's status as well as his deep sense of community, of contact, and sensuous affinity with others. Many of his love affairs were teacher-student relationships, and a number of his lovers, like the composer Ned Rorem, became outstanding in their own fields.

Always a champion of youth, Goodman welcomed the new life-style and critical attitudes of the young in the 1960's as leading towards an easier, more relaxed and tolerant society, a community on a more human scale, with more realistic, kinder values —an alternative to *1984*. But gradually, he became disillusioned by the irrationalism and nihilism of much of the youthful revolt, its lack of a sense of history, its conformism and arrogant refusal to consider its own mistakes, its increasingly evident authoritarianism. He said at one point, referring to some of his students' lack of interest in poetry, "They don't think beauty's relevant." Most of all, he opposed the young activists' rejection not only of the abuses in the structure of Western civilization, but of the structure as well: civilization itself. He compared their penchant for seeking solutions in drugs to a passive search for a religion. He criticized their credulity as well as their cynicism.

It was largely Goodman's disappointment with some of the young people who had formerly given him such hope that led him to change the emphasis of his political/social writing in his last years. His libertarianism moved from left to right—from strong communitarianism to equally strong conservative individualism. The natural optimism reflected in his earlier writing had sometimes given the appearance of shallowness, but his later disillusionment gave to his last works a depth and astringency that was impressive and moving.

In fact, his political philosophy had always been fusionist—uniting much of what is best in conservatism and anarchism. These two aspects of his thought are revealed in two of his titles: *THE BLACK FLAG OF ANARCHISM* and *NEW REFORMATION: NOTES OF A NEOLITHIC CONSERVATIVE*. He devised no rigid ideology, but blended the various tendencies of his thinking into a social wisdom that was both innovative and traditional. His was one of the freest and most comprehensive minds of his time.

In addition, he involved himself personally in the issues and events he wrote about—joining demonstrations, attending conferences, writing letters-to-the-editor, registering his protest or his enthusiasm with his voice and his presence. He took for granted as the elementary business of life the acts of citizenship that are many people's finest moments. Matter-of-factly, often smiling at the rumpled spectacle of himself, he became an itinerant doctor to America, whose forthright bedside manner sometimes charmed his reluctant patient into taking some enjoyable medicine.

At the age of 60, in spite of two heart attacks in the space of a year, Goodman refused his doctor's advice to stay in a hospital bed, and continued until his death his regular activities—writing, counselling, talking with friends, gardening on his farm in New Hampshire.

"He wasn't a man to follow prescriptions," his doctor said. "He had too much to do." That would make a good epitaph. ◻

We have already experienced fuel and power blackouts . . .

ARE YOU PROTECTED AGAINST A FOOD BLACKOUT?

OBTAIN FULLY ADEQUATE AND TASTY MEALS AT 48¢ EACH, WHILE ACQUIRING, AT NO EXTRA COST, FOOD INSURANCE AGAINST THE INCREASING POSSIBILITY OF A REAL FOOD CRISIS

Consider the power black-outs, fuel shortages, accelerated depreciation of the dollar, gold at the $150 per ounce level, and sky-rocketing food prices. Who expected this to happen with such magnitude so soon?

Consider also this: In view of deteriorating U. S. military, economic, and political conditions, it is likely that this country faces a catastrophic crisis in the near future. Nothing effective is being done to change the trend, and matters will get much worse before there is a reversal.

Therefore, as a measure of insurance, it is time to stock up on gold coins (if you have not already done so), plus a food supply which can be used in case of emergency, as well as for every day utilization, should nothing adverse occur. With passing time, acquisition of such a supply is becoming more costly.

Last year the U.S. had an overabundance of food. This year much of our food is in Russia, while some of our domestic prices (including prices of storable items such as wheat) are 3 times higher than previous to the give-away.

We have seen that farmers have killed newly hatched chickens, for the feed has become too expensive due to the "sale" to the Soviet Union. And the Secretary of Agriculture assured us that food rationing is unlikely. (Could anyone foresee the need for such "assurances" in 1972?)

During the last five years, we emphasized acquisition of gold coins as a security investment in our advertisements in the Wall Street Journal, Barron's, Human Events, American Opinion, Reason, and other publications. Those who bought these coins through us already realized great benefits. Now we are advocating acquisition of a ready reserve food supply also as a security investment. Reflection on the past and on what politicians have done and are doing to this country, show this to be necessary. (Thus, while in summer of 1973 it became known that our domestic granaries were almost depleted, a huge U. S. food sale to Red China, on extremely dubious terms, was announced. The food is to come from future crops, as there were practically no reserves left for use of the Red China transaction after shipment to the Soviet Union.)

Nearly all grocery stores now sell packaged and canned foods. However, these items are not designed for lengthy storage and quickly lose freshness and taste, as well as important vitamins. In addition, grocery store items take up considerable space and are heavy. Nor have the drying methods used for thousands of years for food storage proved satisfactory. Their appeal, even before becoming completely stale or spoiled, was always far from desirable. To correct this, the so-called "Low-Moisture" methods were developed about 23 years ago. Their value in providing fully adequate and attractive meals has since then been well proven. However, new developments in this field have improved these products even further. Low-moisture foods were used by the climbers of Mount Everest, and were taken along by our astronauts to the moon. Low-moisture foods are also completely practical and easy to prepare for normal, everyday household consumption. Yet, they last up to 15 years and longer without requiring refrigeration, while their reduction in weight and space of 75% (compared with grocery store items) makes it possible to keep a one or more year supply in a house or garage.

Our Salt Lake City processor has over 20 years of experience (it is the oldest in this field) in providing balanced, low-moisture foods which excel in nutrient, vitamin and mineral contents, as well as taste. The low-moisture methods used to achieve this require greater effort than the usual processes, but results—in terms of taste, nutrients, and longevity, as well as bulk and weight—are worth it. Moreover, cost to the consumer is surprisingly low. Fully adequate, appealing meals are provided at 48¢ each.

Expert design of the ready reserve food supply eliminates guess work as to what to store. This can be of utmost importance to health, especially if a food crisis persists longer than a few days. Fruits, vegetables, eggs, cheeses, grains, sugars, proteins, cooking aids, and a wide variety of other foods, certain to preclude monotony, are provided, together with a culinary book containing outstanding recipes, ideas, and suggestions for best utilization. You may use these foods in your everyday menu, while, at the same time, keeping enough in reserve against a food "black-out." (We can replenish your used up supplies as they are consumed.)

The desired results are achieved by: 1) dehydration of the food; 2) placing the dehydrated food in internally enamelled cans (of which 116 are the regular size #10 cans, each being slightly smaller than a gallon, while 8 are half-size #3 cans); 3) evacuating the air from the cans, replacing it with an oxygen free atmosphere and sealing the cans; 4) packing the cans in cartons of 7-3/8" by 12-3/4" by 18-3/4" dimensions. 20 such cartons weighing 600 pounds and occupying 2/3 of a cubic yard (you can fit them all in your car) provide a 12 month supply for 1 adult person at 2,450 calories per day. (The supply is so designed that either families or single or several adults may use it. While it may last 6 months for 2 adults, the proportional time decrease for a family with small children is less than for adults. Thus, for a family of 6 consisting of a father, mother, and 4 children aged 2 to 14 years, the supply will last longer than 2 months. This is because children consume less than adults.) Opening a sealed can will not cause spoilage for several months, thereby enabling full use of its ingredients.

The following is a list of the contents of the augmented yearly supply described here (except as indicated, all cans are #10 size):

FRUITS: After restitution with water, the same as 103 lbs. of fresh fruits, consisting of apples, peaches, and fruit galaxy of apricots, grapes and cherries, providing 521 of 3 ounce servings. 6 cans.

VEGETABLES: After restitution with water, the same as 268 lbs. of fresh vegetables, consisting of carrots, green beans, sweet corn, tomatoes, cabbage, potatoes and peas. This provides 500 of 4 ounce servings. 12 cans.

SUGAR: 36 lbs. of granulated sugar. This is more than sufficient for normal use of one year. 6 cans.

MILK: After adding water to the powdered milk, the yield is 230 quarts of non-fat milk. At normal consumption of ½ quart per day, this is sufficient for more than a year. 12 cans.

CONCENTRATED VEGETABLE PROTEINS: This category provides a meat substitute, equivalent to the protein content of 100 lbs. of lean, fresh

meat. Also 186 servings of bacon-flavored bits—excellent tasting. 12 cans.

GRAINS: Sufficient flour (or unground whole wheat, yielding the same amount) to provide 250 lbs. of rich, wholesome bread, or any other items the wheat may be used for. Also: 228 of 4 ounce servings of pinto beans; 84 of 4 ounce servings of quick cooking oats; 116 of 4 ounce servings of elbow macaroni; 96 of 4 ounce servings of yellow cornmeal; 279 of 4 ounce servings of rice. 42 cans.

EGGS: 384 eggs (32 dozen) in powdered form, providing more than one egg per day for a year. 4 cans.

CHEESE: 128 of one ounce servings of cheese. 1 can.

GELATIN DESSERT: 256 of 4 ounce servings of gelatin dessert. 2 cans.

BREAKFAST DRINK: 320 of 4 ounce servings of grape, grapefruit, orange, or pineapple drinks. 2 cans.

SHORTENING: 39 pounds. 12 cans.

MARGARINE: 10 pounds. 3 cans.

SUPPLEMENTS: Cornstarch sufficient to make 96 pounds of pies, or other uses; minced onions to provide 384 one ounce servings; beef bouillon for 218 servings of 6 fluid ounces each; chicken flavored and beef flavored gravy for 384 of 2 ounce servings; iodized salt sufficient for more than one year; adequate baking powder and yeast. 10 cans, of which 2 are #10 size (the same as all others listed above) while 8 are half-size #3 cans.

TOTAL: 116 #10 cans, 8 #3 cans; all packed in 20 cartons. (NOTE: none of the items listed here require special care or refrigeration for long term shelf life. However, yeast and baking powder will stay fresh longer if kept in cold storage.)

It can be seen that the READY RESERVE supply provides highly nutritious food, with a high protein, high mineral and vitamin content, sufficient for maintaining good health; and that the 2,450 calories per day, thus furnished for one year, are well balanced. While the food is easy to prepare and use, the book, CULINARY CAPERS, which comes with the supply, contains beneficial instructions and suggestions.

Cost of the yearly supply is **$528** plus shipping charges (varying between $30 and $80 depending on location). This is a bargain even if we never have a food "black-out." Thus, if nothing else, the ready reserve supply serves as a hedge against burgeoning prices. But, should a food crisis occur, the supply can be vital for sheer survival.

Also available: A 5 month READY RESERVE supply providing all necessary items for a 5 month period. This supply comes in 8 cases and weighs about 220 pounds. Cost is **$275** plus $20 to $50 shipping charges. The variety and quantity is smaller than for the yearly supply, but fully adequate nourishment is provided for a 5 month period.

A WATER PURIFIER, good for approximately 100 gallons, is included at no extra cost for the yearly as well as 5 month supplies. This is an exceptionally excellent item, removing contaminants (including radioactive particles) down to one micron (40 millionths of an inch) in size, thus providing pure, usable water, even from highly polluted sources.

Because of worsening inflation, we can expect further price increases. Therefore, we urge you not to delay even one day, as our politicians are not making things better for American consumers. If your order is received within 2 weeks after reading this notice, we will send free of charge as a bonus the two following important books: 1) PASSPORT TO SURVIVAL; 2) FAMOUS MORMON RECIPES.

Our emphasis here on food is not intended to downgrade the importance of gold coins. If we learn from history, we can expect the *dollar* to go the way of the German Mark in 1923. Much worse, monetary conditions are probably coming, and it is not too late to begin or enlarge a supply of gold coins. We offer: U.S. $20 gold coins; Mexican 50 Pesos; Mexican 20 Pesos; Mexican 10 Pesos; and British Sovereigns. **Call for latest prices and quantity orders.** Fully insured coin shipping charges paid by us.

All U. S. gold coins in uncirculated condition. All foreign gold coins in extra fine to uncirculated condition. Many other gold coins also available, plus uncirculated and circulated silver dollars and other silver coins.

IMPORTANT NOTICE:

Many persons wishing to have food insurance for themselves and/or families and short of cash, have asked us if the food can be obtained on a time payment basis. Nevada Coin Exchange is normally not receptive to sell on a basis which places customers more in debt. But, food is more vital for survival than any other purchasable item. Therefore, we made arrangements with Master Charge and BankAmericard to enable time payments (or cash pay-outs) with them for food. If you wish to use this service, please fill in your Master Charge or BankAmericard number as indicated on the order form.

FULL GUARANTEE:

If unsatisfied, you may return coins and/or food ordered to Nevada Coin Exchange within ten days for a complete refund of your purchase, plus a complete refund of any shipping charges.

ORDER FORM

PLEASE SEND:

1. A _____ year(s) supply of READY RESERVE FOOD at **$528** per one year supply, or a 5 month supply of READY RESERVE FOOD for **$275** together with the book, CULINARY CAPERS and water purifier. If I ordered within 2 weeks from reading this notice, you are also to send me free of charge the books PASSPORT TO SURVIVAL, and FAMOUS MORMON RECIPES. I may obtain at request free information on hand or power grinders, water purifiers, breadmixers, survival and/or recipe books, and other supplies.

2. Gold coins (indicate type and quantity desired):
   CALL FOR LATEST PRICES.
   _____ pieces of U. S. $20 gold coins, containing .9675 net Troy Ounce gold per coin.
   _____ pieces of Mexican 50 gold Pesos, containing 1.2056 Troy Ounce gold per coin.
   _____ pieces of Mexican 20 gold Pesos, containing .4823 net Troy Ounce gold per coin.
   _____ pieces of Mexican 10 gold Pesos, containing .24115 net Troy Ounce gold per coin.
   _____ pieces of British gold Sovereigns, containing .2354 net Troy Ounce gold per coin.

(Long distance phone charges reimbursed by us if order above $100 is placed.)

TOTAL FOR ORDERED FOOD AND/OR COINS $_____

If unsatisfied, I may return coins and/or food ordered to Nevada Coin Exchange within 10 days for a complete refund of purchase, plus a complete refund of any shipping charges.

NAME_____ ADDRESS_____

CITY_____ STATE_____ ZIP_____ TELEPHONE_____

☐ Master Charge Number
☐ BankAmericard Number_____
(Enter only if you wish to use credit card)

Check, money order, or other convenient form of payment for food and/or coins acceptable. You may also use Master Charge or BankAmericard for food. Send order to:

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P. O. Box 485, 1104 West Sunset
Carson City, Nevada 89701
Telephone: Area Code 702, 882-2483

All food and coin prices subject to change without notice.

BANK REFERENCES AT REQUEST

NOTE: Coin orders shipped via fully insured mail (paid by us) from Carson City, Nevada. Food orders shipped from Utah via truck. Food shipping charges (varying from $20 to $80 depending on supply ordered and distance) payable by purchaser on receipt of order. We guarantee to pay the difference if food shipping charges exceed $80 for the yearly supply, or $50 for the 5 month supply within the 48 contiguous U. S. states. Shipping charges to the more populated parts of Alaska and Hawaii (i.e. Anchorage, Juneau, Honolulu, Hilo, etc.) are approximately 35% higher.

editorial

NO "RIGHT" TO REPLY

One indicator of the rate at which we're losing our freedom is the extent to which yesterday's bad joke becomes today's reality. Thus, just when people were finally beginning to comprehend the destructiveness of FPC regulation of interstate natural gas prices, we find Congress seriously considering extending this regulation to intrastate sales as well! Similarly, for years concerned libertarians have attacked the FCC's Fairness Doctrine as a violation of the First Amendment's guarantee of free press and free speech. A point frequently made in such discussions was that broadcast journalism is in principle no different from print journalism, and a fairness doctrine for newspapers would be recognized by everyone as ludicrous and unconstitutional. Only—you guessed it—now they want to impose a fairness doctrine on newspapers!

The idea first popped into public view last July when the Florida Supreme Court upheld a little-known 1913 state law forcing a newspaper to print a political candidate's reply to any article that "assails" his character, charges him with misconduct in office, or otherwise attacks his official record. The law applies to both editorials *and* to news stories reporting what one candidate says about another. The *MIAMI HERALD* has appealed the ruling to the U.S. Supreme Court.

The Alabama legislature jumped on the antipress bandwagon by passing a totalitarian law forcing those in the business of gathering and disseminating news to disclose publicly, as individuals, all their sources of income. Then in November, a scurrilous outfit called the National Citizens' Committee for Fairness to the Presidency, in full-page ads in leading newspapers, praised the Florida and Alabama laws and called for a federal fairness law for newspapers. (The Connecticut chapter of this organization demonstrated its concept of fairness by inviting a college sophomore to present a speech giving an opposing view on Watergate, then proceeded to shout her down halfway through!)

Following these trial balloons, Sen. John McClellan of Arkansas called for a Senate study of the "possibility" of enacting a national right to reply law, if the U.S. Supreme Court upholds the Florida law. "In essence," he explained, "a national right to reply law would entail the application of some form of the 'fairness doctrine' now applicable to broadcasters to the print media." Just one month later, amidst new Watergate revelations, President Nixon formally proposed a national right to reply law, as part of his election campaign reform plan sent to Congress in March. The proposed law would apply to attacks on candidates, public officials, and "public figures," whoever that may be.

That such a proposal could be introduced —and taken seriously—shows how close this country is coming to tyranny. And make no mistake: not everyone is rising up in horror at such a law. Many of the establishment liberals who have supported the FCC Fairness Doctrine all these years are turning up as apologists for just this sort of law. Fred W. Friendly, formerly president of CBS News, recently took NBC to task for its recent attempt to scuttle the Fairness Doctrine, and in so doing, linked NBC's position with that of newspapers. "NBC News and the *MIAMI HERALD,*" wrote Friendly, "are making the mistake of pushing the First Amendment too far." Friendly thinks freedom of the press is fine, as long as the press doesn't go to "absolutist" extremes, like thinking that "freedom of the press belongs to those who own the presses."

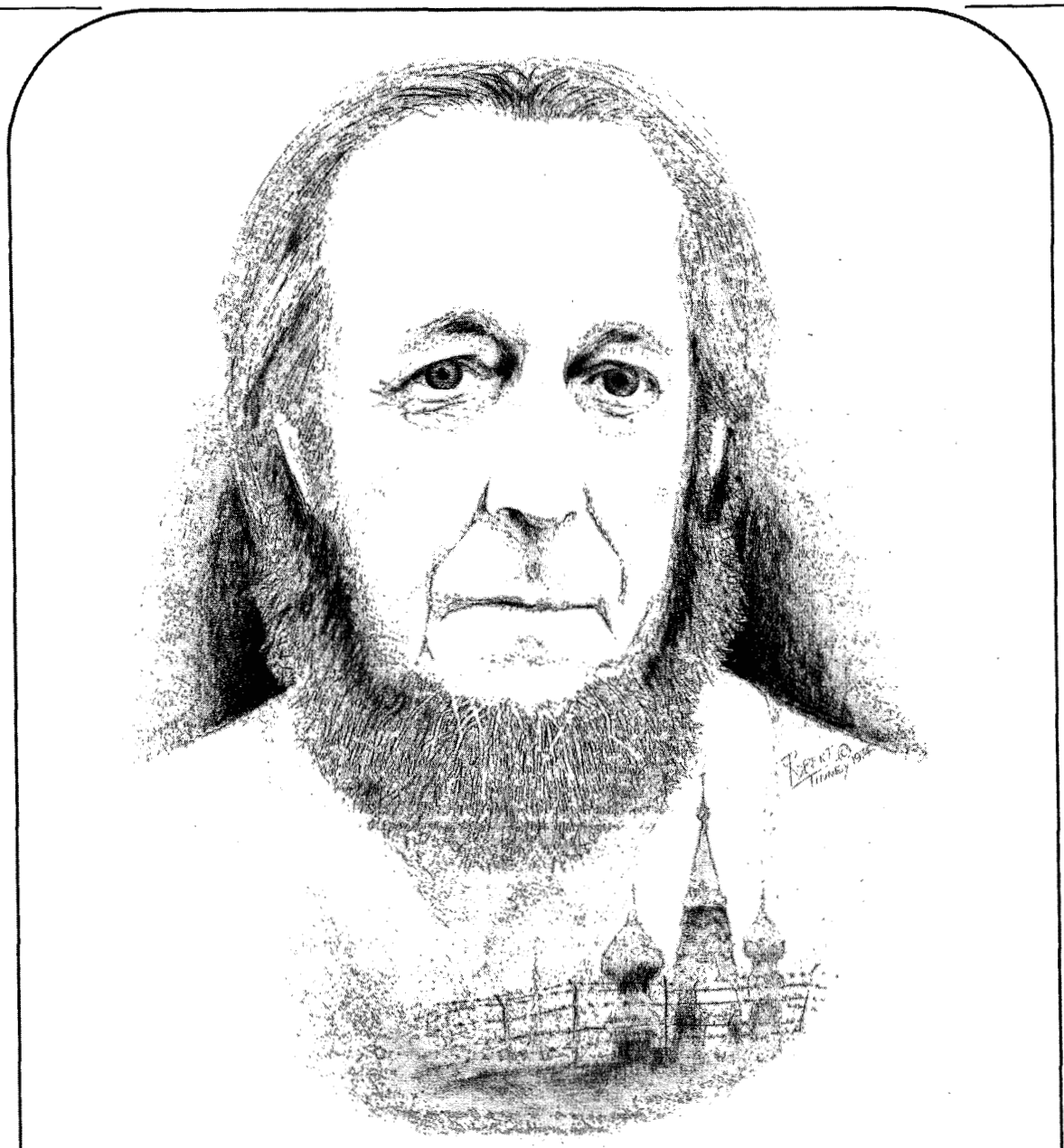
But this is precisely the point! A newspaper, like a TV station, is a *private enterprise.* The only alternative to a privately owned press is a *government* owned press. One would think people of Friendly's erudition would have heard of Solzhenitsyn, Sakharov, Amalrik, and their comrades who must turn to illegal *samizdat* publishing because "their" government owns all the presses. A newspaper, like this magazine, only exists because its owners and staff raise capital and sell advertising and write articles and edit and set type and buy ink and paper and operate presses and arrange for distribution. It is *their* business and *their* judgment as to what it contains. If they judge wrong a large enough fraction of the time, people will refuse to buy it, and will seek alternatives. And even "one-paper" towns have weeklies, underground papers, out-of-town papers, radio, television, and magazines to provide an alternative. No news media in this country is a "huge monopoly" as Fred Friendly and the Committee for Fairness to the Presidency would have us believe.

So much for the moral arguments. For those who need practical considerations, consider the effects of a right to reply law. A newspaper faced with such a law would have two choices. It could surrender its editorial prerogatives and allow politicians and bureaucrats free access to its pages, thereby placing government in the editor's chair. Or, it could simply refuse to cover controversial public figures so that it could avoid being forced to provide equal time for replies. This approach would reduce the role of journalism to that of the blandest company house organ, never questioning the wisdom of those in power, but studiously looking the other way. Such an approach would prevent the printing of unsubstantiated charges from unnamed sources, of the kind that helped break the Watergate scandal wide open. It's not hard to see why the Richard Nixons of the world would support such a law.

The proposed right to reply law would apply only to newspapers, not to magazines. For many years newspapers remained silent as the Fairness Doctrine was imposed on broadcasters. We at *REASON* hope the magazine industry won't stand idly by while a new fairness doctrine is imposed on newspapers—because magazines are the next logical target. And we would like to take this opportunity to state publicly that should such a law be proposed we will fight it, and should such a law be passed *we will ignore it.* This magazine belongs to us and to nobody else. To be forced to give space in *our* magazine to parasitical fascists like Richard Nixon and Henry Jackson would be the worst kind of obscenity.

Thomas Jefferson once stated that if forced to choose between a country with a government but no newspapers, and a country with newspapers but no government, he would unquestionably choose the latter. So would we.

ROBERT POOLE, JR.



Alexander Solzhenitsyn

Exiled for the "crime" of speaking the Truth

A hero has emerged. The entire world watched as Alexander Solzhenitsyn defied the Soviet State and dared to tell the truth. The courageous words of this one man have successfully challenged the naked power of guns, barbed wire, and secret police.

ROBERT TINNEY GRAPHICS proudly presents a salute to Alexander Solzhenitsyn. This dramatic portrait is reproduced in black on quality 16 x 20 stock suitable for framing.

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DAVIS E. KEELER

HOW YOU CAN PROFIT FROM THE COMING STONE AGE

When you read some people on the subject of the forthcoming monetary disaster, you get the impression that they are expecting a new Stone Age in which decades will be spent clawing our way out of the rubble of our collapsed civilization. Libertarians in particular seem to anticipate survival by hardy bands of libertrogs, secure in their mountain retreats, well armed and stocked with food and grain, buying their few wants with gold coins from the embeggared masses who wander dazed about the once great cities, now deserted and returned to the prairie dog and the ecologist.

I find this scenario rather melodramatic.

The impression gleaned from casual reading is that monetary collapse is a rather sharp, quick affair which is over pretty fast. Currency accounts get wiped out and the malinvestments engendered by the preceding inflation are liquidated, but the demand for basic industries and services is still there and jobs are there in those firms. There are difficulties in working out new prices, but that's one of the things markets are good at. Those who depend on currency savings are hurt, but to most people savings are not a life-or-death affair. Government or private charity takes care of the old folks and the workers go back to work, unburdened by their former debts.

The main problem would be if the government steps in "to ameliorate the suffering," "maintain wage levels," "save jobs," and in general acts to keep the mess from getting liquidated so that the thing drags on indefinitely, as was the case in the Great Depression.

All things considered, perhaps the government's prolonging the mess is the most likely course, and we *are* in for a long, hard time ("once again demonstrating the bankruptcy of laissez-faire capitalism"). But this must be recognized as a *speculation* on future political action, and not as an inexorable consequence of events now in motion.

The significance of the question, as a practical matter, lies in whether we should sell our home in the city and move to Montana and learn to farm and tan our own leather, against the coming fiscal Götterdammerung, or whether a sensible investment strategy, plus a few hundred dollars in canned goods in the back closet, will be an adequate coverage.

NOWHERE TO GO BUT DOWN?

Hard money fundamentalists sometimes talk as if they believed that the first slip from 100 percent gold backing leads as surely to a Brazilian-style hyperinflation as their Baptist brothers believe that the first approving sip of demon rum leads to the gutter. But while history shows us that *all* currencies depreciate through inflation, the spectacular runaway inflations of Brazil, Germany, China and Hungary are remarkable precisely for their novelty.

England, France and Italy, to take a few examples, have experienced serious inflation for several decades. While this period saw substantial losses in money values, the currencies stabilized, albeit at a low level, and have never "gone Brazilian." The French franc, after losing about 99 percent of its pre-World War I value, even enjoyed a brief period under de Gaulle as a hard currency.

Recent months have seen some possibly significant changes in the money situation. For one thing, talk of the possibility of a hyperinflation is being heard from more establishment-type sources. Even Arthur Burns referred recently to the "double digit" Latin American style inflation. For another, we are starting to see institutional buying of South African "Kaffir" gold shares.

This latter development is encouraging because Kaffir owners are no longer quite the exposed remnant that they once were. To the extent these large buyers are long-term holders they will provide a steady base for these shares; on the other hand, their decision to drop Kaffir's in institutional investor-sized lots would have an unsettling effect on the market. In any event, some may feel that since Kaffir ownership is no longer confined to the little folks on the right fringe they may not be as susceptible to casual expropriation as has been feared in the past.

There has also been talk of a flight from money. When you see people paying over $300 for a 20 dollar gold piece containing about one ounce of pure gold, which is about *double* the bullion price, you can't help but feel that something is wrong. Dealers report that a lot of buyers are new people who aren't too sure what a Double Eagle is, but want a gold coin. This double price can't represent any *traditional* numismatic premium since collectors can recall when Double Eagles were a glut on the market at $45 apiece! These coins are likely going to a lot of "weak holders." The present inflated premium on these gold coins is very disconcerting. It reminds one of tulip bulbs.

If a person wants to flee from money, it's not all that obvious where he can go. The gold price run-up, and the corresponding mark-up in gold shares, has been so rapid that gold is no longer the conservative investment that it once was.

Natural resources may be an obvious haven but most governments have been behaving so erratically these days that these carry a high risk of political intervention. The Canadian government has been particularly irresponsible on this score, with elaborate and confiscatory tax and royalty schemes. The Australians are also acting up. In the U.S., the machinations of the environmentalists and the economic control *berserkers* are all too familiar. The Arabs are behaving like Arabs. In most of the rest of the world everything expropriatable has already been expropriated. Only the South Africans are behaving themselves.

Friends who follow the auctions for antiques, art, old flatware, etc., report that the prices realized are coming as a surprise even to the auctioneers, who generally can tell from experience what a piece is going to bring.

A problem with protecting yourself from inflation in today's demagogic political atmosphere is that a successful hedge is apt to be confused with a windfall profit. This may explain part of the attraction for unregistered and inconspicuous hedges, such as our aforementioned Double Eagles, flatware, or antiques. ◻

Davis Keeler's Money column alternates monthly in REASON with John J. Pierce's Science Fiction column.

foreign correspondent

MINI-WATERGATES

Ghent, Belgium. In recent months, our politicians have tried at least twice to come up with a Belgian Watergate. It doesn't seem like they have succeeded yet. First came IBRAMCO. The province of Liege has long hankered after a local petroleum industry which would hopefully give them back some of the economic glory dying with their moribund coalfields. The project was touted around to all comers. Oil companies from different countries submitted schemes but dropped out afterwards, so the government decided to do a straight deal with the Iranians. The trouble, as it later turned out, was that only the socialist part of the coalition government knew about this. The others all thought "studying prospects" was the only thing agreed upon. The main storm, however, came when the statutes of IBRAMCO (Iranian-Belgian Refining and Marketing Company) were published in the official Gazette and it became clear that three socialists, including the Economics Ministry Secretary General, were on the board (as good dialecticians, the socialists in Belgium have always remarkably succeeded in making a "synthesis" out of "public" interests and their own). Additional protests came from the environment-minded Dutch, who didn't like the idea of a refinery close to their frontier and, naturally, from the petroleum sector, who rightly feared government "competition." In spite of all this, it seemed likely that IBRAMCO would get the green light until Iran suddenly announced that it was pulling out of the project.

The second "scandal" is of the more usual type. Allegations were made by a former Chief Engineer of the state-run telephone and telegraph administration (RTT) that several thousand million Belgian francs went into the pockets of private construction companies, when the RTT went straight to private contractors for several building projects instead of putting them out to tender. He claimed that the prices were considerably in excess of normal rates and that two companies in particular were involved, one of which had connections with a government minister. The Chief Engineer's allegations have been well substantiated in the meantime and one of the ministers involved (there are two, both socialists again) has been discharged. Still, the mess does not seem to have been cleaned up completely yet.

Elections were recently held here, the socialists having coolly decided to withdraw their support for IBRAMCO, after Iran announced it would pull out. The results indicated that the Belgian voter needs more than a few mini-Watergates to change his political adherence. The big "winner" indeed was the Christian Social Party, which gained five Chamber seats (total number of seats: 212), while no party lost more than two seats. The governmental repercussions may be more important, however. It is unlikely, at the moment I am writing this, that the three-party coalition will be resumed. A Christian-socialist coalition seems more probable, and since the socialists campaigned on a rather radical pro-nationalization and anti-big business platform, it looks like we won't have to worry about creeping socialism for some time: it will be galloping.

Since good politicians don't let prices rise during an election campaign, Belgium had (and still has at this moment) the lowest oil price in Western Europe. Result: the oil companies decided to cut supplies. Reaction from the government: they *had* to continue supplying the customers (no right to strike for capitalists). Additional result: customers, wanting to profit from the low prices, started buying more than they usually do, thus worsening the supplying problem. Intellectually, as an illustration of market economics, it was all very satisfying.

Some of the biggest political excitement here has developed around what may seem to be an insignificant problem: the closing hour of shops. Shopkeepers resenting (you guessed it) unfair competition from supermarkets, persuaded a parliamentarian to introduce a bill (which has become law in the meantime) imposing 8 p.m. as a compulsory closing hour for shops and supermarkets (most supermarkets used to be open until 9 p.m.—an additional hour which makes a big difference for a lot of people who work at the office or factory during the day). The reaction from the supermarkets was vehement, although unsuccessful: the bill was rushed through Parliament, together with 25 other ones, some of which also about important matters, the day before parliamentary recess. This fact, incidentally, may illustrate to what degree the parliamentary system in Belgium has simply become a farce.

Another scandal, although no one calls it that way, is that from this year on, the daily press will be subsidized by taxpayers' money. Some 25,000 dollars will be used, an amount to be doubled next year. Once again, our clever socialists originated the scheme: their newspapers are so uninteresting to read (consisting partly of pure party propaganda) that even many working-class people prefer a "bourgeois" paper. So in order to preserve a "democratic choice of different view-points" something had to be done. And so, dear readers, as usually happens when somebody says that something ought to be done by someone, it's the taxpayers who will have to pay something for it.

Mogens Glistrup, the Danish antitax lawyer, whose "Progressive Party" is on the rise, seems to have become very popular with American libertarians. Anyone who is against taxes can't be all bad, but still I am skeptical about a man whose "defense" program consists in a proposal for establishing a telephone answering service saying "we capitulate." Meanwhile, Mr. Glistrup's Norwegian alter ego, Anders Lange, recently captured 4 of the 150 parliamentary seats there.

On a practical note: I am trying to arrange a correspondence network between American libertarians and Europeans (not European libertarians, as the Society for Individual Liberty wrote, although the purpose, of course, is to make them so). So if you want to follow the example of your venerable executive editor, Lynn Kinsky, who has already bravely volunteered, write to me, Guy de Maertelaere, c/o Hugo Vandeputte, Drongensteenweg 230, B 9000 Ghent, Belgium, adding as much information about yourself as possible and mentioning at least your main points of interest, your favorite libertarian thinker and whether you are for anarchism or limited government. Most Europeans participating will probably be radical left-wingers, some of them even anarchists (not anarcho-capitalists, of course).

Some juridical wisdom to end: Supermarket thieves were acquitted recently because, so the judge decided, "The abundance of publicity as well as the way the goods are presented constitute as many almost irresistible temptations." Who says better?

Guy de Maertelaere

book review

A PEN WARMED-UP IN HELL: MARK TWAIN IN PROTEST. By Mark Twain; Frederick Anderson, ed. New York: Harper & Row Perennial Library. 1973. 211 pp. $1.50 paperback.

Reviewed by BRUCE RAMSEY

Even though Mark Twain is most famous for his fiction and his travel/autobiographical works (e.g., *LIFE ON THE MISSISSIPPI* (1883), *THE INNOCENTS ABROAD* (1869)), he was also a social critic. This is often buried in the texts of his books, such as his fiery denunciation of the Established Church in *A CONNECTICUT YANKEE;* yet he also wrote pure social criticism, most of which is unknown to the public. In the later years of his life, his writing was almost exclusively devoted to criticism and satire of imperialist foreign policy—particularly American conduct in the Spanish-American War.

Twain was not a libertarian; he was an exponent of no systematic ideology. Yet he was able to recognize injustice and hypocrisy in an age rife with it, and aimed his criticism from a viewpoint generally sympathetic to the classical liberals. Many of the targets of his biting sarcasm are the same targets of libertarian criticism today: imperialism, statism, racism, and organized religion.

The greatest part of his newest collection, *A PEN WARMED-UP IN HELL,* is devoted to his antiwar and anti-imperialist writings. This includes "The War-Prayer" and "Battle Hymn of the Republic (Brought Down to Date)," neither of which he allowed to be published during his lifetime. It also contains his masterful anti-imperialist essay, "To the Person Sitting in Darkness," published in the *NORTH AMERICAN REVIEW* of February 1901. Those of us who began the Vietnam episode as "hawks" can only wish in retrospect that we had read it; there is no doubt where Twain would have stood on that issue:

> *Shall we?* That is, shall we go on conferring our Civilization upon the peoples that sit in darkness, or shall we give those poor things a rest? Shall we bang right ahead in our old-time, pious way, and commit the new century to the game; or shall we sober up and sit down and think it over first? Would it not be prudent to get our Civilization-tools together, and see how much stock is left on hand in the way of Glass Beads and Theology, and Maxim Guns and Hymn Books, and Trade Gin and Torches of Progress and Enlightenment (patent adjustable ones, good to fire villages with upon occasion), and balance the books, and arrive at the profit and loss, so that we may intelligently decide whether to continue the business or sell out the property and start a new Civilization Scheme on the proceeds?

The collection also contains an excellent account of Twain's own Civil War experience, entitled "The Private History of a Campaign that Failed" (1885), which helps to explain the development of Twain's antiwar views.

Twain lashes out at statism in "The Great Revolution in Pitcairn" (1897), a supposed account of the descendants of the mutineers of the H.M.S. *Bounty,* whose idyllic existence on a Pacific island is corrupted by an infusion of nineteenth-century politics. An American intruder convinces the people that the nominal British rule is actually tyranny, brings about a mini *coup d'etat* in the name of "national unification," and proceeds to establish an army, navy, and civil service—to govern a self-governing people and defend against nonexistent enemies. The result:

> Everybody fell to complaining that the taxes levied for the support of the army, the navy, and the rest of the imperial establishment were intolerably burdensome, and were reducing the nation to beggary. The emperor's reply—"Look at Germany; look at Italy. Are you better than they? and haven't you unification?"—did not satisfy them. They said, "People can't *eat* unification, and we are starving. Agriculture has ceased. Everybody is in the army, everybody is in the navy, everybody is in the public service, standing around in a uniform, with nothing whatever to do, nothing to eat, and nobody to fill the fields"—
> "Look at Germany; look at Italy. It is the same there. Such is unification, and there's no other way to get it,—no other way to keep it after you've got it," said the poor emperor always.
>
> But the grumblers only replied, "We can't *stand* the taxes,—we can't *stand* them."

Racism is yet another target of Twain's criticism. "Goldsmith's Friend Abroad Again" (1870) is the supposed collected letters of a Chinese immigrant on his way to the Land of Milk and Honey who disembarks in San Francisco and finds himself in Hell. He loses his money to corrupt customs officials, who charge him five times the free-market price for a "mandatory" smallpox vaccination, even though it's obvious he has had the disease before, and is thus immune to it. Next he is arrested for being the *victim* of an assault, and charged with "making a disturbance" —only to find he is not allowed to testify in his own behalf, because for a Chinese to testify against a white man is illegal.

So much for the Land of Milk and Honey.

These are the best pieces in the new collection, which also contains "The United States of Lyncherdom" (1901), "The Chronicle of Young Satan" from Twain's *MYSTERIOUS STRANGER MANUSCRIPTS* (1900), "Grief and Mourning for the Night" (1906), and various other letters and short essays. He makes a stab at organized religion in "Bible Teaching and Religious Practice" (1890), but these are not Twain's best antireligious writings; these can be found in *LETTERS FROM THE EARTH* (Bernard DeVoto, ed. New York: Harper and Row, 1962), and in selected passages from *A CONNECTICUT YANKEE IN KING ARTHUR'S COURT* (1889) and *THE INNOCENTS ABROAD* (1869).

It is regrettable that his best satires on organized religion are left out of the present volume, but nonetheless, *A PEN WARMED-UP IN HELL* is the best collection of Twain's social commentary to date. It is a fine introduction to a great author and critic often neglected by libertarians. ◻

Books for Libertarians

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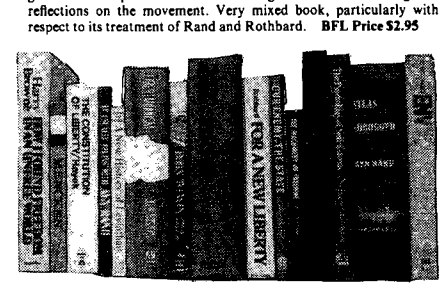

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movies

REVIEWED BY CHARLES BARR

• David Merrick's production of **THE GREAT GATSBY** is the cinematic equivalent of classical sculpture. It is formal and highly stylized, played out with the inevitability of a Greek tragedy. Jack Clayton's direction evokes a ghostlike atmosphere, slowly but steadily drawing the audience into the surrealistic world of high society during the 1920's. Many of the actors have been cast against type, with mixed results. Robert Redford plays Gatsby as a mysterious, withdrawn introvert, more in keeping with the Oxford graduate he pretends to be than the bootlegger he actually is. Mia Farrow turns on just the right amount of superficial charm as Daisy, Gatsby's long-lost love, shallow and irresponsible at the core. Daisy's cousin Nick, who is also the narrator, is rendered in a superbly understated performance by Sam Waterston, whose appearance and style resemble Tony Perkins at his best. Bruce Dern seems wildly miscast as Tom, Daisy's husband; he comes across not as a ruthless, rich hypocrite, but simply as a semi-intelligent lout. Karen Black, as Tom's mistress, screams and bleeds a lot, but her portrayal is oppressively ordinary. The plot, centered around Gatsby's attempts to woo Daisy away from her husband, moves with methodical precision, though a bit too slowly at the beginning. An interesting counterpoint is achieved between the wild, elaborately-staged all-night parties at Gatsby's mansion and the icy progression of the film, which maintains its wider perspective even in the midst of the revelry. The sets, costumes and period automobiles are authentic and carefully detailed; obviously there has been no skimping on production values. The movie may not live up to F. Scott Fitzgerald's romantic prose. But what it lacks in fire, it makes up in craftsmanship. Rated "PG."

• **THE SUGARLAND EXPRESS** succeeds in the quite tricky business of being entertaining and serious, subtle and obvious at the same time. Its plot is straightforward, and based upon a true incident: A mother, recently released from prison, where she served time for shoplifting, discovers that Texas authorities have taken her two-year-old son and placed him in a foster home. She thereupon helps her reluctant husband to escape from another prison to rescue the child. The pair kidnaps a Texas highway patrolman, intending to release him in return for their child, and leads a seemingly endless caravan of state police cars on a not-so-merry chase. Goldie Hawn, in her first dramatic outing, effectively portrays the immature, naive but very determined mother out to reclaim her child. The semi-sympathetic role represents quite a departure for the giggly former star of *LAUGH-IN*, but the transition is successful, and after a few minutes even her heavy Southern accent sounds natural. Ben Johnson contributes a needed touch of controlled irony as the Highway Patrol chief, anxious to avoid bloodshed if at all possible. William Atherton as the husband, and Michael Sacks as the kidnapped highway patrolman, are effective as ordinary people coping as best they can with a situation beyond their control. Wry social commentary is presented in scenes where vigilantes attempt to shoot the pair in a used car lot, and where a town gives them a hero's welcome as they drive through with the kidnapped patrolman. Steven Spielberg's direction is natural and unpretentious; the visual effects are superior, though the editing is a bit loose in spots. The moral conflict, involving as it does the rights of parents and the rights of children, is not resolved in the movie, but should make for some interesting discussion among libertarians. Rated "PG."

Goldie Hawn aims a 12-gauge shotgun during a shootout in THE SUGARLAND EXPRESS.

• It's rerun time at the movies, or so it would appear. **MAME**, a flashy, gushy new multimillion-dollar musical, is strongly reminiscent of a flashy, gushy multimillion-dollar old musical of five years ago, *HELLO DOLLY*. It is a star vehicle, pure and simple, with no plot, no coherent development, no depth of characterization to stir the enthusiasm of serious devotees of musical comedy. Compared to Rosalind Russell's performance in the 1958 movie, *AUNTIE MAME* (the basis for the current musical), Lucille Ball's portrayal lacks bite, and is infused with so much sticky sentimentality that it appears to be a put-up job. During close-ups, the camera gives Lucy such a soft focus that she dissolves into a blur, highly irritating to the eyes if you happen to be sitting close to the screen. The movie does have its successful moments, most of which have been lifted intact from the earlier film. Lucy's acting sometimes rises far above the level of her television series, although it quickly becomes obvious that she can't sing worth a damn. Beatrice Arthur is appropriately garish as Mame's best friend. She can't sing either. Kirby Furlong plays baby Patrick and Bruce Davidson plays grown-up Patrick, Mame's nephew. Both turn in creditable performances. Robert Preston is wasted in the role of Beauregard, Mame's husband. The paper-thin story is about a sophisticated yet Bohemian woman, living what passes as an unconventional life in the 1920's and '30's, getting away with it all because she is so adorable and charming. In case you are unable to decipher this plot from the movie's events, the songs spell it out for you. It's better than having a road map. Rated "PG." ◻

TIBOR R. MACHAN

SCIENCE, SKINNER AND HUMAN AFFAIRS

Not long ago B. F. Skinner made it very big on the bestseller lists of this nation. For those convinced that a free society is the one best suited for human beings, Skinner's success was just another discouraging clue to the intellectual climate of our culture. Skinner made his pitch for a planned society in direct opposition to libertarianism. He is explicitly hostile to human rights and tells us in *BEYOND FREEDOM AND DIGNITY* that "Life, liberty, and the pursuit of happiness are . . . the rights of the individual and were listed as such at a time when the literature of freedom and dignity were concerned with the aggrandizement of the individual. They have only a minor bearing on the survival of a culture." (p. 172, Bantam edition)

What makes Skinner so attractive to many is that he is always a champion of *science.* Anyone concerned with solving problems tends to give a favorable reception to a book that proclaims an unabashed adherence to "scientific analysis" and "technology." As Skinner notes, "We play from strength, and our strength is science and technology." (p. 1) Science deals with the *natural* world and makes no appeal to supernaturalism. In this much, at least, little controversy exists. And advocates of human liberty would always want to justify their views by reference to the facts of nature. Yet with Skinner, *they* are the ones whose stance is made to *conflict* with science, the study of nature.

If one grants Skinner's claims to being strictly scientific, it is a quick leap from there to accepting his "technology of behavior." From what scientists identify about nature, we can proceed to learn how to control the world around us. That again seems uncontroversial enough. But a lot hinges on just what someone's idea of science is, before we can accept the claims he makes about topics in some field of science. This is where Skinner's ideas must be scrutinized, for it is in his conception of science that Skinner is dead wrong.

For B. F. Skinner science consists in the observation of events and episodes and moving from these to rules and laws. (See his *SCIENCE AND HUMAN BEHAVIOR,* pp. 3-10) Although *he* believes that his conception of science is itself a result of a scientific analysis, he does admit, here and there, that he has philosophical debts to such thinkers as David Hume, Immanuel Kant and Alfred North Whitehead. It is this last whose views he adopts most openly—both by self-proclamation and in practice. Whitehead's metaphysics has the world basically composed of *processes,* not things or entities. And Skinner's choice of *events* as the basic units of science in general, and his choice of *behaviors* ("processes") as the units of the science of behavior testify to his commitment to a Whiteheadian metaphysics.

Based on this metaphysics—and *not,* as *he* says, on science—Skinner reduces all human affairs to the physical events of human action, namely behaviors. But this leads to a very strong philosophical prejudice against individuals. Since individuals are *things* in nature, not events, anyone who considers things or entities as, at best, secondary to processes must view human action along lines incompatible with the tradition of human rights theory. In this tradition *people* are viewed as capable of choice, as capable of causing some of what they do, some of their own behavior. But Skinner *must* ignore that possibility altogether. As he says in *BEYOND FREEDOM AND DIGNITY,* "the individual is at best a locus in which many lines of development come together in a unique set . . . [and] . . . the individual nevertheless remains merely a stage in a process."

What this means is that Skinner *could not offer* an explanation of human behavior by reference to what people choose to do, since that would mean that his last point of reference would not be some process, but an entity, namely some person. Having restricted his candidates for causes to events, he can then say that by adopting the idea of human agency—i.e., that *people* can cause their actions—we are left without the possibility of an explanation for human action.

The trick as well as the trouble is that Skinner would have all this follow from his *scientific* research, whereas in fact it follows from a very doubtful metaphysical point of view. Today this same point of view underlies many fields of study. Virtually all of the social sciences accept it. In almost every study of social affairs, scholars seek after "the causes" of behavior—but in terms of their metaphysical viewpoint, they must *exclude people themselves* and confine their candidates to what happens to people, events in the environment, in the brain, in one's history, etc. The causes are restricted to one *kind* of cause. Yet this is not called for by *science.* And just like Skinner, most social scientists refuse to debate the matter along philosophical lines. So while wearing the cloak of science they give the impression of paragons of openmindedness—

in fact they are prisoners of a very questionable philosophy.

Unfortunately Skinnerianism, and other pseudo-sciences, are often favored with some justification. This is that the alternatives offered are generally fuzzy irrationalist doctrines. The "touchy, feely, fucky" psychological schools, where reason is explicitly rejected; the various new theologies; Eastern mysticisms; and other cults of the irrational are offered as alternatives to the "hard headed" scientific view of human affairs Skinner is taken to advocate. And if people know little about other alternatives, where neither reductionism nor mysticism are accepted but reality/nature is acknowledged to come in many fashions—physical, biological, psychological, political, etc.—then Skinner's doctrine would appeal to the more earthbound. Indeed when one reads the alternative (psychological, social scientist, humanist, existentialist, etc.) views of human affairs projected in the pages of magazines like *PSYCHOLOGY TODAY,* not to mention the scholarly journals, one can sympathize with B. F. Skinner's stubborn refusal to consider them seriously.

Where does one find alternatives that respect man's place in nature yet do not reduce people to rocks, rats or pigeons? Not in many places. But Professor Isidore Chein's *THE SCIENCE OF BEHAVIOR AND THE IMAGE OF MAN* (Basic Books, 1972), Dr. Roger W. Sperry's essay "Mind, Brain and Humanist Values" (in John R. Platt's *NEW VIEWS OF THE NATURE OF MAN,* University of Chicago Press, 1965), and some other publications emerging from psychology and philosophy (by John Yolton, Robert Efron, Edward Madden, Rom Harre, Richard Taylor, *et al.*) have recently begun offering something

other than reductionism and mysticism as general viewpoints by which to make sense of human affairs. (Most *REASON* readers know of Nathaniel Branden's works addressed to this problem.)

A final point about Skinner. At base, Skinner himself cannot secure a clean environmental deterministic theory of human action. He simply cannot account for the *origins* of human behavior, although he does argue that once such behavior has been originated, there are better or worse ways in which to encourage it. And to the extent that he has developed some of these ways, he has contributed something to learning theory (in the teaching of skills, primarily). But nothing of what he says justifies comprehensive behaviorism, nor the view that people cannot cause their own behavior. Moreover, his discussion of the technology of behavior can be of some use, provided the reader eliminates the reference to some outside controller and acknowledges that in the end it is the individual himself who must exercise the control over his behavior, otherwise it can only end in ineffectiveness and unhappiness. But if this revision is administered upon Skinner's doctrine, he no longer can reject human rights and his political speculations lose all their theoretical support.

Which is just as well. ◻

Tibor Machan's Viewpoint appears in this column every third month, alternating with the views of Murray N. Rothbard and David Brudnoy. Dr. Machan's book on B. F. Skinner will appear late in 1974 from Arlington House.

frontlines

EQUITARIAN ASSOCIATES CONFERENCE

Frontlines correspondent **Paul Varnell** reports:

The spring **Equitarian Associates** conference on *Libertarianism and Justice* was held March 28–30 at the Point West motel complex near Holland, Michigan, with about 65 people in attendance. Conference Chairman **Doug Den Uyl** of the University of Chicago led off the eight papers with a discussion of "Aristotle, Hobbes, and Rand on Social Justice" which used a basically Aristotelian framework to probe the roots of those philosophers' views on both the nature of justice as well as the sort of society each envisaged as following from his concept of justice.

Immediately following was a brace of papers on "right" by **Tibor Machan** (of SUNY at Fredonia), criticizing philosopher Gregory Vlastos' attempt to substitute "prima facia" rights (which may be over-ridden by superior goods) for indefeasible natural rights; and by **Eric Mack** (of Eisenhower College) who distinguished between rights and justice and argued that justice must consist of more than simply rights being recognized.

Rounding off the first day's session was **Doug Rasmussen** (of Marquette University) who argued in a paper to be subsequently published in the *PERSONALIST* that John Rawls's *THEORY OF JUSTICE* contains less than meets the eye and that Rawls's own conception of justice is not the only one consistent with his method of deriving it.

The second day of papers included a three-cornered discussion of the rationale for punishment by **Joel Myklebust** on "Retribution and Punishment," **Roger Bissell** on "Coercive Punishment: An Unnecessary Evil" and a reply to Bissell's views by **John Hospers** (of U.S.C.) asserting the inadequacy of a simply restitutionist view of punishment. **Bruce Den Uyl** closed the conference with a largely economic analysis of the externalities problem in "Justice in an Imperfect Market."

The papers were but half of the conference: the other half was the energetic discussion and rapid exchange of information that occurred during meals and in the evenings, people sitting around arguing about things ranging from modern art to Solzhenitsyn, to philosophy of sex to (as usual) the State of the Movement. Most attendees agreed that despite the uniformly lousy weather, it was one of the best conferences ever, and both the excellent food and accommodations provided by Point West lived up fully to their advance billing. Happily, plans are already being made for the next conference, to be held July 5–6 in Milwaukee, Wisconsin. The subject of the conference will be art and aesthetics—for further information contact **Thomas Marsh**, 1735 W. Hampton Ave., Milwaukee, WI 53209.

FLP CONVENTION

The **Free Libertarian Party** held its second annual state convention in New York City March 29–31. The FLP nominated **Jerome Tuccille** for Governor and **Percy Greaves** for Senator. Tuccille, an author *(RADICAL LIBERTARIANISM, IT USUALLY BEGINS WITH AYN RAND)* and lecturer, will lead the FLP's attempt to gain permanent ballot status in New York through polling at least 50,000 votes in November. Newly elected state Chairperson, **Ray Strong**, said the FLP must broaden its support outside of New York City in order to achieve this goal.

Greaves, a nationally prominent economist, was a student of Ludwig von Mises' and has been active as a lecturer for the Foundation for Economic Education. He was nominated by **Murray Rothbard** and gave an acceptance speech via telephone in which he pledged to bring the message of laissez-faire to every voter in the State of New York.

Other FLP candidates for office in New York included **Louis Sicila**, Lt. Governor; **Leland Schubert**, Attorney General; **Bob Flanzer**, Comptroller; **Ken Kalcheim**, 17th Congressional District and **Sanford Cohen**, 25th Congressional District. Kalcheim is active in tax resistance and hopes to receive the Republican nomination as well. Cohen has been actively campaigning in his district for over a year.

In other action the FLP elected **Mike Nichols** and **Bill Lawry** to the two Vice-Chairperson posts. **Fran Youngstein** and **Howard Katz**, defeated as candidates for Vice-Chairperson, were elected to the State Committee along with **Charles Blood**, **Andrea Millen** and **Ellen Davis**.

To get more information on FLP Activities write to the FLP at 15 West 38th Street, New York, NY 10018.

NOTES:

The first regular convention of the **Libertarian Party of Minnesota** will be held May 18 and 19. Contact Evelyn Shapiro for further information at (612) 533-0441 . . . **Ray Anne Kibbey**, a reference librarian at the **University of South Florida**, is currently compiling *A BIBLIOGRAPHY FOR LIBERTARIANS: IN THE NAME OF THE BEST WITHIN US* which will include books, essays, articles, and pamphlets on a gamut of subjects from the LP through revisionist history to fiction. It will also include a listing of tape courses and lectures, associations, book services, and periodicals. Anyone who has published items and/or offers the services listed should send information to Ray Anne Kibbey, 5649 Del Prado Drive, Apt. 235, Tampa, FL 33617 . . . **Robert Steiner**, co-founder and first chairman of the **New Jersey Libertarian Party**, has received the unanimous endorsement of the NJLP for his Independent candidacy for the U.S. Congress (12th District). Those interested in contributing time and/or money to his campaign should contact **Bob Steiner for Congress**, Box 112, West-

Bob Steiner, libertarian candidate for Congress from New Jersey.

field, NJ 07091 . . . **Campus Studies Institute,** which produces pro-free-market educational material for distribution on college campuses, is now accepting student applicants for its summer seminar, August 19–31, 1974. The seminar will involve participation in SimPoSoc (Simulated Political Society)—a simulation game where three economic systems (mixed, socialist, and free) are investigated–as well as reading assignments and a written analysis of the seminar. Room and board at the **University of California, San Diego** will be paid by CSI and seminar participants will also receive a $50 honorarium. Students should apply by sending a letter to CSI (1172 Sorrento Valley Road, San Diego, CA 92121) indicating interest and including a one-page essay they've written on any topic . . . **The Intercollegiate Studies Institute** has announced the **Ludwig Von Mises Memorial Essay Contest,** open to college undergraduates only and carrying $2000 in prizes. The essay subject is the respective roles of government and the free market in meeting America's energy needs, and entry deadline is July 15. For information and entry forms write to ISI, 14 S. Bryn Mawr Ave., Bryn Mawr, PA 19010 . . . The Second National Convention of the **Libertarian Party of Canada** will be held May 23–26 at the Howard Johnson Motor Hotel, 1150 Wellington Road S., London, Ontario (between Detroit and Toronto). Featured speaker at the convention banquet will be **Ms. Tonie Nathan,** and libertarians from both Canada and the U.S. are encouraged to attend. For information on registration contact **Vijay Basdeo,** 121 Broadway Avenue #10, Toronto, Ontario . . . **The Libertarian Circle** is a supper club which meets monthly at the **Roast Beef & Brew,** 1015 Madison Avenue, New York City. The next dinner, at 7 p.m., May 21 will feature **Jerome Tuccille** speaking on "Libertarianism and the Future." Reservations must be made in advance and pre-paid–send $9.95 per dinner to The Libertarian Circle, 208A Mercer Street, New York, NY 10012 (or simply write and ask to be placed on their mailing list to receive announcements of future dinners) . . . On Tuesday, May 14 *REASON* editor **Manuel Klausner** will speak at the **CalTech Libertarian Forum** on "A Libertarian Perspective on the American Legal System." For further information contact (at CalTech) **Greg Simay,** Ruddock House, 449-9886; or **Karl Blasius,** Arms Lab, ext. 2143 . . . **The Libertarian Party of Hawaii's** May 20th meeting will feature **Andrew Leonard** of the Church of Scientology speaking on "The State and Psychiatric Abuses." (Place: McCully-Moiliili Library; time: 7:30 p.m.) For more information on the LPH and its myriad activities write to 190 Niuiki Circle, Honolulu, HI 96821; and every Monday at 7:45 p.m. listen to **KHVH** (1040 kHz) and the LPH's "Libertarian Commentary" program. ◻

Please send material for inclusion in FRONTLINES *to Lynn Kinsky at* REASON, *P.O. Box 6151, Santa Barbara, CA 93111. Meeting and activity announcements will be carried as space permits; however we must receive announcements two months before the actual event if we are to publish it as a "coming attraction" rather than as history. Tell us about your group, your activities, your strategies for social change in as much detail as possible. Items accompanied by photos are especially welcome.*

COMING NEXT MONTH:

Next month *REASON* explores questions of sovereignty and property rights—on land, under the sea, and in outer space. Economist M. Bruce Johnson describes the new threat to property rights posed by land-use control bodies such as the California Coastline Commission (on which he briefly served). Editor Robert Poole then outlines what's at stake at the forthcoming Law of the Sea Conference—namely, an incredible act of expropriating seabed minerals by the U.N. and the "less developed countries"—unless entrepreneurs like Howard Hughes can establish property rights to seabed minerals in time. Finally, Paul Siegler looks at the economics of earth-orbit manufacturing and, finding that NASA is largely superfluous, gives guidelines for escaping earth's petty sovereignties. All this plus Murray Rothbard's "Viewpoint," Science Fiction in Perspective, and all of *REASON's* regular columns and features.

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publisher's notes

• **"CONSERVATIVE" ATTACK ON PROPERTY RIGHTS:** It is commonly believed that—in the contemporary American political spectrum—it is "conservatives" who are defenders of property rights and economic freedom, while "liberals" uphold the government's power to restrict such rights. It is, therefore, of some interest to see a leading conservative spokesman speaking out in favor of two recent repressive Supreme Court decisions, and the "liberal" American Civil Liberties Union vigorously championing the side of private property rights.

In the two decisions in question—both handed down on April Fools' Day—the Supreme Court (a) sustained the right of a locality to limit land use by restricting more than two unrelated persons from occupying a private dwelling *(Village of Belle Terre v. Boraas),* and (b) upheld the constitutionality of the vicious Bank Secrecy Act of 1970 provisions which (i) require banks to photocopy every check over $100 written by their customers, (ii) impose extensive recordkeeping requirements on banks concerning their customers' identities, and (iii) require banks and individuals to report to the Treasury Department many private financial transactions *(California Bankers Ass'n v. Schultz).*

In the *Boraas* case, a couple leased their home to six college students. In a 7–2 decision (joined by all of Nixon's "strict constructionist" appointees) the Court held that the village ordinance which allowed the homeowner to rent only to two unrelated tenants was constitutional, based on an earlier decision which ruled that "property rights may be cutdown, and to that extent taken, without pay." In a dissenting opinion (on the grounds of freedom of association and right to privacy, but otherwise approving of such legislation if well drafted), Justice Marshall noted how poorly drawn the ordinance was, since it allowed "an extended family of a dozen or more . . . [to] live in a small bungalow, [while] three elderly and retired persons could not occupy the large manor house next door." In the *California Bankers Ass'n* case, the Court (6–3) upheld the Bank Secrecy Act because of the government's interest in enforcing "the myriad criminal, tax, and regulatory provisions of laws which Congress had enacted." Again supported by all of Nixon's "strict constructionists," the Court concluded that the cost burdens imposed on the banks "to spy on their customers" were not unreasonable (estimated $6 million a year expense and required photocopying of a minimum of 20 billion checks) and no constitutional right was violated by requiring information to be kept concerning all aspects of a person's checking account, thus paving the way for government access to a person's "doctors, lawyers, creditors, political allies, social connections, religious affiliation, educational interests, the papers and magazines he reads and so on . . . ."

These decisions were the subject of a debate on the NBC *TODAY* show (April 3) between William Rusher, *NATIONAL REVIEW* publisher, and Aryeh Neier, Executive Director of the ACLU. Rusher supported both of the Supreme Court decisions, revealing the inherent authoritarian position of traditionalist-conservatives —which helps explain the difference between conservatives and libertarians. Although the ACLU strenuously opposed both rulings, the ACLU still has a long way to go before it assumes a consistent posture in defense of property rights. We urge our readers to write to William Rusher *(NATIONAL REVIEW,* 150 E. 35th St., New York, NY 10016) to let him know what *you* think about his collectivist stance. Tell him *REASON* sent you.

• **GOVERNMENT CHALLENGES ACUPUNCTURIST:** California state authorities are seeking to prohibit a prominent acupuncturist from practicing the Chinese art of puncturing the body with needles to relieve pain. Tomson Liang, who teaches acupuncture to doctors in San Diego and reportedly only uses his needles on patients who are referred to him by doctors and surgeons, is accused of practicing medicine without a license (*LOS ANGELES TIMES,* April 14). If the government succeeds in its action, we can think of some good ways to use Mr. Liang's needles. Bend over, bureaucrats . . .

• **CRISIS OF CONFIDENCE:** In a recent analysis of "the public's loss of confidence in the governmental and political processes," Lawrence O'Brien (past chairman of the Democratic National Committee), while asserting that the "basic challenge is to find ways of making government function better," noted (*LOS ANGELES TIMES,* April 16):

> I strongly believe that the present crisis of confidence is not directed against a specific government, as some suggest. *Our present crisis arises primarily from the fact that government simply hasn't functioned in a way that merits public confidence.* The trouble is not confined to the regime organized by Richard Nixon but, in a general way, applies to all governmental bodies, large or small.

Meanwhile, the Gallup Poll's latest measurement of political party affiliation showed a continued decline in major-party allegiance. In response to the question, *"In politics as of today do you consider yourself a Republican, Democrat or independent?"* 42% identified with the Democrats, 24% with the Republicans, and 34% did not identify with either party. The most striking results were on college campuses, where only one in seven students described themselves as a Republican (compared with one in four in 1966), while nearly half (49%) in the latest sur-

(concluded on page 45)

THERE'S MORE TO FREEDOM THAN SLOGANS

Everybody claims to be in favor of "freedom." Yet how many people really understand what it's all about? Consider the businessman who's all for free competition . . . unless his competition is named IBM or is Japanese. Or the mayor who wants plentiful transportation . . . but outlaws jitneys. Or the military leader who wants to defend freedom . . . using conscripted labor. Or the citizen who's all for free speech and press . . . so long as the material isn't "obscene." Each wants freedom for the things he considers important, but at the expense of somebody else's freedom.

At REASON Magazine, we believe in freedom for *everyone.* With Herbert Spencer and John Stuart Mill, we believe a person should be free to take any action, so long as it does not interfere with the liberty of anyone else. We call this point of view *libertarianism.* It is unabashedly individualistic, capitalistic, and (we think) reasonable. Moreover, this voluntaristic, free market approach points the way toward solutions to many of the problems created by the unbridled growth of Big Brother statism — like war, taxation, the energy crisis, and inflation.

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trends

This column reports trends in the advancement of individual liberty and the rediscovery of economic freedom. Readers are invited to submit material of potential interest.

AN END TO CONTROLS

What was widely considered to be politically impossible as little as three months ago now appears to be a reality: the abolition of Administration authority to control wages and prices. In strikingly lopsided votes, both the House and Senate Banking Committees voted not to extend the Economic Stabilization Act beyond its April 30 expiration date. The Senate committee vote was 11 to 4 to let controls lapse, while the House committee voted 21 to 10 not to consider any of three bills before it dealing with extending controls. The Administration had made a compromise proposal to keep controls on only the health care and construction industries, and to keep the Cost of Living Council in existence to enforce Phase 4 rules, but this plan was unanimously rejected by the Senate committee. A further Administration plan—to keep the Cost of Living Council alive as a "monitor" without enforcement powers—was also defeated by the Senate group.

These Congressional moves followed weeks of lobbying by businessmen, doctors, and labor union leaders, all of whom have finally become convinced of the unfairness and impracticality of wage and price controls. Free market economists, of course, accurately predicted the results of the attempt to set wages and prices by government fiat—widespread shortages, distortions of production, and in the end, continued inflation. But it has apparently required the actual existence of these results over an extended period of time to convince business and labor leaders to speak out, and to convince the politicians that being against controls could be politically acceptable. It's been a costly and dangerous lesson—hopefully, one that will not need repeating.

SOURCES:
- "Oil, Health, Labor Interests Push for Abolition of Price Controls," Paul E. Steiger, *LOS ANGELES TIMES,* March 17, 1974.
- "A Last-Ditch Stand to Keep Controls," *BUSINESS WEEK,* March 30, 1974.
- "House Panel Lets Economic Controls Die," *WASHINGTON POST,* April 6, 1974.

CREEPING CAPITALISM

A growing number of cities, frustrated with the inefficiency of bureaucracies and unable to raise taxes much further, have found a partial answer in private enterprise. Increasingly, such services as garbage collection, and in some cases fire protection, are being contracted out to private, profit-making firms (see "Contracts: Key to Urban Rebirth," *REASON,* April 1974). One of the newest and fastest-growing government departments is data processing, and last August Orange County, California turned over all its data processing operations, serving some 25 County agencies, to a private firm. Winning a seven-year, fixed-price contract was Computer Sciences Corporation (CSC) of El Segundo, California.

Before turning to private enterprise, Orange County officials had projected the costs of continued government operation over the next seven years at some $38 million. CSC's winning low bid was $26.6 million, a saving of $11 million for the County's hard-pressed taxpayers. In addition to cost savings, there are other benefits as well. One is the inherently shorter decision cycle of private enterprise management. Within two months of taking over the data processing operations, CSC determined that the existing data input equipment was obsolete and placed an order for modern key-to-disk units; this problem had been under study by the County for almost three years! Another advantage is access to the full range of CSC's computer specialists for short-term consulting on difficult problems. In addition, the employees now have far more options in their career paths with CSC than they had as County employees. Some 98 percent of the County data processing staff accepted positions with CSC, and most consider the move to be a major improvement in their career development.

The impact of Orange County's experiment in contracting was summed up by *LOS ANGELES TIMES* correspondent Don Smith. "The truly hard part, persuading a local governmental body in a politically conservative area to give up one of its favorite status symbols is over. Private industry, which has been claiming for years that it could do government's business 'better and cheaper' has a chance to put its money where its mouth has been. . . . The results will be of interest throughout California, perhaps even the nation. . . . If other governmental agencies follow Orange County's lead, the effect could be a shift of hundreds of millions of dollars of work from the public to the private sector."

SOURCE:
- "Profile of a Project," Computer Sciences Corporation, El Segundo, CA, 1973.

HOLDING OFF 1984

The Supreme Court's decision on April Fools' Day upholding the constitutionality of the Bank Secrecy Act of 1970 has given further impetus to a growing movement in Congress for legislation to restrict government snooping on citizens. The Act, portions of which has previously been overturned in federal district court, requires banks to keep on file the names and Social Security numbers of all depositors and to keep microfilm records of all checks over $100, most unsecured personal loans over $5000, and foreign transactions involving more than $10,000. Banks must report to the Federal Government the transportation into or out of the country of currency, checks, and securities exceeding $10,000. All provisions of the Act were upheld in a 6-3 decision (see p. 40, *supra*).

In Congress Rep. Barry Goldwater, Jr. said that the Supreme Court, by its decision, was "destroying the very liberties it was created to protect." Sen. Sam Ervin urged support of a bill introduced by Sen. Alan Cranston and Rep. Fortney Stark, called the Right to Financial Privacy Act, which would reverse many of the provisions of the Bank Secrecy Act. Goldwater noted that there are now some 207 sponsors and cosponsors of 102 privacy bills and resolutions in the House, and 62 sponsors of related legislation in the Senate.

The new mood in Congress is indicative of a growing concern, shared by libertarians and some liberals and conservatives, over the role of the federal government in collecting—and misusing—data on individuals. A recent check turned up the existence, in Washington alone, of no less than 750 computerized data systems under government control, collecting personal information on mental illness, drug use, juvenile delinquency, criminal activity, credit status, etc. Nobody knows how many additional data banks exist at state and local levels. Although President Nixon recently promised federal action to increase individual privacy (by appointing Vice President Ford to a study commission), other agencies of the federal government are positively hostile to criticism of current practices. FBI agents have visited persons who publically criticize government data banks, attempting to convince them to remain silent. Among those who have been visited are Kenneth Grubbs, a libertarian editor of the *ANAHEIM BULLETIN,* whose editorial page carried a syndicated column criticizing the FBI's National Crime Information Center (NCIC). Grubbs reported the incident to the *LOS ANGELES TIMES,* which covered it in a front-page story.

Other individuals and groups across the

country are taking direct action. The 1972 Massachusetts legislature passed a law which limits access to criminal arrest records to law enforcement agencies and others required by law to use them, allows individuals to see their records and correct errors, sets up a criminal history systems board to decide questions of access to the data, and a security and privacy council to monitor the board. (In 1973 the Iowa legislature passed a similar law.) The results of the Massachusetts law have been dramatic. The criminal history systems board decided that the federal Small Business Administration (SBA), the Defense Investigation Service (DIS), and military recruiters had no business seeing arrest records. In retaliation, the SBA has threatened to hold up $30 million in loans and the DIS has refused to recommend people to fill 2400 jobs in the state. Both matters are currently in court.

Meanwhile, Governor Francis Sargent has refused to allow the state's criminal history system to interconnect with the FBI's NCIC system, due to the absence of safeguards in the latter. Interconnecting would enable law enforcement agencies in other states, which allow virtually uncontrolled access to their data banks, to obtain and misuse data on Massachusetts citizens. Gov. Sargent has also refused to comply with federal rules requiring the state to furnish personal data on drug users to the federal government, under a data collection scheme known as CODAP; as a result, $9 million in federal aid has been cut off. Massachusetts has been joined in this refusal by New Hampshire, Alaska, Pennsylvania, and South Dakota, while 30 other state governments have expressed "serious concerns" about federal demands for such information. Finally, Massachusetts officials have refused demands by the Secret Service to supply personal information on 20 individuals with mental health problems, whom the S.S. considers a threat to the life of the President. Under Massachusetts law, mental health files cannot be released without a specific court order, which the S.S. has not obtained. Gov. Sargent has recently announced that names and Social Security numbers will no longer be entered into the state's computerized mental health records, to increase the security of the system's data.

Groups calling for reform of law enforcement data banks include the *National Advisory Commission on Criminal Justice Standards and Goals,* whose proposals include the purging of all arrest records for which no disposition (e.g. conviction or acquittal) is listed, and limitation of access strictly to law enforcement agencies. The Church of Scientology recently announced the formation of a *National Commission on Law Enforcement and Social Justice* concerned with the "use of computers and unverified material fed into them by law enforcement agencies." Rev. Lawrence Wilbur, head of the Commission's research committee, notes that "the distribution of this false data has a tendency to act as a pyramid of false reports which jeopardizes individual rights." The group plans a series of studies and a national advertising program. The *New Mexico Civil Liberties Union* recently carried out a month-long advertising campaign alerting citizens to the dangers of data banks and the growing use of Social Security numbers as personal identifiers.

Among those endorsing the New Mexico program was Rep. Barry Goldwater, Jr., who is emerging as the House's leading spokesman on right-to-privacy issues. Goldwater has introduced bills to (1) restrict the use of Social Security numbers to agencies required by law to do so, and allow individuals to refuse to disclose their number to all others, (2) establish a Code of Fair Information Practices allowing individuals access to data files containing information about them, and (3) petition the Attorney General to establish security and privacy regulations for NCIC and all interfacing state systems. Senate bills to implement such provisions for

IN GOLD I TRUST

by Anthony L. Hargis

Some books about the monetary crisis take an alarmist approach.

Some give investment advice.

IN GOLD I TRUST does neither.

The alarmist approach can be found in other sources which are not worth mentioning.

The investment advice can be found elsewhere, and is quite adequate: Browne, Schultz, Rickenbacker, *et. al.*

What is **IN GOLD I TRUST?** It covers such topics as:

- The monetary crisis is superficially a crisis of economy, fundamentally it is a crisis of moralities: it is the consequences of the death throes of the non-morality of parasitism and, simultaneously, the birth pains of an ethics of production. In fact, I offer the means which can hasten the death of the former and the explosive growth of the latter. And, my assessment of the situation is exceedingly unneutral.
- What would be the consequences of a favorable U.S. balance of trade? How would it affect gold? . . . the dollar? . . . all currencies? . . . inflation?
- Once the dollar collapsed, would the existence of the U.S. Government be possible? . . . Would any government survive? . . . Would it lead to dictatorship? . . . or, to a freedom unmatched in history?
- What, exactly, is a dollar?
- What is the relation of the federal debt, the Federal Reserve System, the U.S. Government, the purchasing power of the dollar, and parasitism? Or, if we can shift to a biological context, why are they different species of the genus stupidity?
- What are the consequences of a higher price of gold? . . . and why does it spell the end of the most immoral civilization in history?

Make no mistake about it, the book is not an emotional outburst, it examines fundamental details and technicalities with a logic that produced a sovereign individual. Yes, there is emotion connected with the book — unbounded hatred, to be exact. The hatred developed as I began to discover the evil for which a world commits further unspeakable evils — in order not to know about the first. That, plus a lack of experience of writing, causes the style and flow to suffer somewhat. Nevertheless, **IN GOLD I TRUST** is thoroughly devoid of emotions — quite unlike the state you will be left in — if you read it, and are alive.

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NCIC have been introduced by Senators Ervin and Hruska, and a watered-down version has been proposed by the Justice Department. Without such safeguards, Goldwater points out, data banks containing incorrect data "can result in the violation of a number of basic rights, including the right to privacy, the right to due process and equal protection under the law, and the right to be free from cruel and unusual punishment."

With 1984 only ten years away, it is none too soon for strong action to protect these rights against the growing technological state.

SOURCES:
- "Law Forcing Banks to Report Depositor Data to U.S. Upheld," Linda Mathews, *LOS ANGELES TIMES,* April 2, 1974.
- "High Court Ruling on Bank Record Privacy Assailed by Congressmen," Paul Houston, *LOS ANGELES TIMES,* April 3, 1974.
- "U.S. Facing Demands to Curb Computer Data on Individuals," Robert A. Jones, *LOS ANGELES TIMES,* February 3, 1974.
- "Action May Start with Arrest Files," *DATAMATION,* September 1973, p. 119.
- "Feds Denied Data in Privacy Issue," *DATAMATION,* October 1973, p. 135.
- "Big Brother's Big Eye," *TIME,* April 1, 1974.
- Press release, Ministry of Public Relations, Church of Scientology of California, February 15, 1974.

FREEDOM FOR SCHOOLS

In a unanimous ruling the New Mexico Supreme Court has found that state regulation of private schools in that state is unconstitutional. The ruling, handed down on January 18, held that "there is no constitutional authority granted to the [State] Board [of Education] to supervise or exercise control or management over private elementary and secondary schools." The decision allows the Santa Fe Community School and the Cedar Grove Cooperative School to remain in existence, despite their failure to employ a State-certified teacher for each of 30 State-required courses. For the longer term, the decision opens the door for the growth and development of an innovative education industry in New Mexico, free of the stultifying effects of state regulation.

The class action suit was filed in February 1972 by the two schools after the State Department of Public Education threatened the parents of their children with criminal prosecution for violating the compulsory education law (on the grounds that the schools did not have sufficient "certified" teachers to qualify as schools). The case was argued through the lower courts by attorneys Mike Gross and Em Hall, with support from the Harvard Center for Law and Education, the ACLU, the Santa Fe Legal Aid Society, and educational reformers John Holt and Jonathan Kozol.

One of the outgrowths of the case is the development of the National Association for the Legal Support of Alternative Schools. NALSAS plans a variety of legal and political activities, dealing with parents and children's rights, nonpublic school accreditation, and attacks on compulsory education laws. Its primary goal is the "political survival" of nonpublic schools, whether labeled "free," "alternative," "community," or whatever. NALSAS coordinator is Ed Nagel (P.O. Box 2241, Santa Fe, NM 87501).

SOURCE:
- "Alternative-Free School Class Action Suit Wins!" *NEW SCHOOLS EXCHANGE NEWSLETTER,* Issue No. 111, February 15, 1974.

MILESTONE

- *Food.* The Food and Drug Administration has ordered an eight-month delay in the target date for compliance with its proposed order forcing bakers to double the iron content of white bread. This latest attempt to legislate health has been criticized by a number of doctors who point out that added iron could be a health hazard for certain persons whose systems store too much iron as it is. New hearings are scheduled for April, and the target date has been postponed "pending the outcome of the hearing." (Source: "FDA Orders Delay in Plan to Put More Iron in Bread," UPI (Washington), February 12, 1974.)

reason profile

If Dr. John Hospers had not believed that only through the political process could enough attention be gained (via the media) to make millions of Americans aware of the existence of libertarianism as a political (or antipolitical) movement, he would not have consented to become the Libertarian Party presidential candidate in 1972 (nor accepted the draft as the California LP gubernatorial candidate in 1974), since he insists that he is a writer and educator more than a politician. Basically he is an activist who is at home in both theory and practice, balancing his position as chairman of the School of Philosophy at the University of Southern California with an intensive schedule of speaking engagements on behalf of libertarianism that take him from Alaska to the Bahamas (and most points in between).

Born in Pella, Iowa in 1918 Hospers received his B.A. from Central College and his M.A. from the State University of Iowa (both in English) and his Ph.D. (in philosophy) from Columbia University. Before coming to U.S.C. he taught at Columbia, University of Minnesota, and C.U.N.Y. He is presently editor of the philosophical journal *THE PERSONALIST* (and advisory editor of the *JOURNAL OF AESTHETICS AND ART CRITICISM* and *PHILOSOPHICAL STUDIES),* the author of about 50 periodical articles and reviews, as well as the author of several books, including *LIBERTARIANISM* (1971), *HUMAN CONDUCT* (1961), *INTRODUCTION TO PHILOSOPHICAL ANALYSIS* (1967) and *PRINCIPLES OF LIBERTY* (in progress).

Dr. Hospers enjoys reading poets such as Shakespeare, Caucer, Tennyson and Coleridge; and among novelists lists Ayn Rand, Henry Fielding, George Eliot, Marcel Proust and Stefan Zweig as some of his favorites. His tastes in music range from Bach and Handel to moderns such as Mahler, Prokofieff, and Sibelius; and he enjoys the art of Cezanne, Seurat and Gaugin. Dr. Hospers' hobbies include traveling, boating, and swimming (he's also a gourmet cook) and, most of all, reading and writing.

Spending his childhood in a free-enterprise Dutch colony in Iowa (English is his second language!), Dr. Hospers had his libertarian tendencies strengthened by personal acquaintance with Ayn Rand

JOHN HOSPERS

and he shares with her the conviction that in the *long run* the education system offers the best means to achieve a libertarian society—"but this seems at the moment the worst fountainhead for libertarians—business, medicine, the trades and professions, including agriculture, on the whole understand and take to libertarianism much better."

(continued from page 40)

vey say they are independent, outnumbering the proportion who are willing to call themselves Democrats (37%). If this trend continues, the Gallup Poll should soon be asking people whether they identify with either the Libertarian Party or the League of Nonvoters!

• **ABACO NEW COUNTRY PROJECT** The project to establish an independent free-market oriented new country on the island of Abaco, Bahamas continues to move forward. Friends of Abaco has received donations ranging from $10 to $50,000 from a wide range of people, mostly those who have been active in the New Country Project in the past. Copies of *LIBERTARIANISM* are now circulating on Abaco, and by some accounts, Professor John Hospers is now the island's most widely-read author. Hospers was warmly received when he gave the keynote address to the first convention of the Abaco Independence Movement (AIM) on February 25 in Marsh Harbor. Friends of Abaco continues to seek cash support for its efforts to provide material and economic assistance to the freedom-seeking people of Abaco.

• **LOST SUBSCRIBERS:** We wish to apologize to a "lost" group of subscribers who sent in subscription or renewal payments between approximately January 18 and February 15. Your checks were cashed and deposited, but somehow this fact did not get entered in our computer, and you were sent another bill dated February 26. If this happened to you, please let the Circulation Department know (if you haven't already) and we will correct our records. ◻

letters

ALASKAN INDEPENDENCE

It has been delightful to read about the Alaskan Independence Movement ["Trends," September 1973 and "Letters," November 1973 and February 1974]. In the midst of all these phony liberation movements we hear about, one of the genuine variety appears. While most libertarians will say "nice, but they haven't got a chance; Washington won't let them," I find it more constructive to ask under what conditions would Washington not be able to stop them? What can we do to *create* such conditions?

But it is a great thing; just what the doctor ordered; the greatest promotion vehicle, the embryo of rebellion. As Churchill said, "This is not the beginning of the end, but the end of the beginning." Tally ho!

David K. Howard
Walnut Creek, CA

MORE ON FEMINISM

I found your *REASON* Profile on Ms. Sharon Presley [March] most interesting. In particular, I was obliged to agree with her statements concerning libertarians and sexism.

Reflection thereupon led me to wonder if *REASON* was considering devoting an issue to libertarianism and feminism. I, for one, would be most interested.

Paul Miniato
Oakville, Ontario, Canada

REASON's *December 1971 issue was devoted to the subjects of sex, marriage and feminism. (A very small quantity of this 34-page issue is still available, at the price of $2.50 each, postage paid.)* REASON *plans to further cover these subjects in forthcoming issues.—Ed.*

ACCOLADES FOR REASON'S SPECIAL BOOK ISSUE

Bravo! to Jeff Riggenbach, for his repudiation of the "sewer" school of literary criticism ["Is Modern Literature *Really* a Sewer?", March]. Far too many libertarians, influenced by Ayn Rand's cultural pessimism, have consigned themselves to a very unhealthy form of aesthetic misery—pining for the long-lost days of Dostoyevsky, Hugo, Rachmaninoff, etc. Not only is worship of some former Golden Age an indication of psychological defeat, it is patent nonsense. Riggenbach firmly establishes the truth of the maxim "There are none so blind, as will not look." There is good reason to suspect that present times match or excel the nineteenth century in the production of art, through the works of Solzhenitsyn, Prokofiev, Robert Silverberg, Ursula K. LeGuin, Virgil Finlay, Maxfield Parrish, Walter Carlos, and others. Admittedly, the public taste is no certain guide to the truly beautiful—but then, when was it ever? There's a whole wide world of great literature, great art, and great music to be had. All it takes is for libertarians to come out of their ghetto.

Another hurrah must go to John Hospers, for nailing down the flaws in Harry Browne's "run-away-from-it-all" philosophy ["The New Epicureans," March]. In every case where one might be confronted with a complex problem—from pollution, to making oneself understood in one's family—Browne gives blanket advice that essentially amounts to taking flight (from L.A. to Vancouver, B.C.; from old acquaintances to new ones.) He never seems to realize that even the *last* Bastion of Purity will eventually be afflicted with rats and termites. The problem is not how to *elude* situations, the problem is how to *solve* situations—a problem for which Browne offers nothing. Not surprisingly, Browne's advice is sympathetically accepted by those who have been brought up on the Galt's Gulch approach to life ("If society stinks, withdraw.")

For too long a time, libertarians have run to the shelter of their ghetto, pointing accusatory fingers at the "evil" outside world. What they fail to understand is that there are *noble people* in the outside world, who are not necessarily libertarians—and that there are social problems which *cannot* be solved automatically by laissez-faire theory.

This means that libertarians must discard their blinders and tackle problems attendant to human interaction in general (e.g., sexism, racism, religion, adult chauvinism, etc.). The objective, after all, is not simply to erect a new government, but to create a new *society*.

Mike Dunn
Seattle, WA

BROWNE'S STRATEGY HAS MERIT

I was rather disappointed by Hospers' review of *HOW I FOUND FREEDOM IN AN UNFREE WORLD* [March]. I must grant the validity of some of Hospers' critical remarks. However, the main point of the book was not philosophical rigor, but practical suggestions useful to persons holding a certain viewpoint. I found many of Browne's suggestions excellent, and the overall tone stimulating; I would have appreciated seeing more than one paragraph, out of 3½ pages, devoted to them. One would not ordinarily review an engineering text with extensive discussions of the author's metaethical approach to engineering practice. Admittedly, Hospers is a professional philosopher; perhaps you should have found a professional self-liberator to review the book.

I must also disagree with some of Hospers'

philosophical comments. For one thing, I don't see anything objectionable in Browne's denial of universal concepts of 'right' and 'wrong'. Must we base all criticisms of the State on the theory that we are morally entitled to rights which it denies us? I think it better simply to recognize the State as *in fact* our enemy, as are various thugs and con men. The notion that one's actions need some moral justification in various rights is in fact one of the most powerful mechanisms by which the state and its moralizing hangers-on keep people enslaved; anyone desiring freedom would do better to remove such blinders than to try to use them against the State.

Browne's definition of freedom seems flawed, but not in quite the way Hospers suggests. I think a good emendation might be: 'Freedom is immunity to other men's preventing you from living your life as you want to.' This is indeed a sort of opportunity—and it is secured by being able to defend oneself in one's endeavors, by actively seeking out and buying or producing invulnerability. One can indeed have *this* sort of freedom in an unfree world—given it isn't 100% unfree.

This leads to a wider point. Browne's underlying approach is founded in recognition that collective movements do not produce freedom. In the first place, since they rely on political rather than market signals of success, they cannot allocate resources efficiently to their aims. In the second place (and the two are related), the structure of such movements is a lure to power-freaks of all sorts, a source of politicking and a ready field for empire-building; and any movement is all too readily subverted by people with valuable things to offer the leaders. The Libertarian Party and such groups as resemble it are in structure an imitation of the United States Government—and an organization cannot produce results for which it is structurally unsuited. Browne's self-liberation approach—together with exchanges among various self-liberators—offers the only strategy yet proposed which escapes this trap. Overall social change is always a collective good, and such goods offer insuperable problems to their would-be producers. Personal freedom, the ability to resist human interference through whatever means in whatever spheres one deems important, is a private good—and if freedom can be produced at all, this is what will do it.

William H. Stoddard
Bonita, CA

Reason's Letter of the Month

The letter below, by subscriber Thomas L. Johnson, appeared in the Fredricksburg (Va.) *FREE LANCE-STAR* of March 8, 1974:

GOVERNMENT IS LIKE THE SLA

Many people in this nation are distressed by the kidnapping of Patricia Hearst by the Symbionese Liberation Army. They immediately recognize that it is a monstrously immoral act for this army to use force in its attempt to extort money from the Hearst family in order to aid the poor, aged, paroled and disabled. Americans realize that this "charity-by-force" is not charity at all, but a barbaric act to be condemned by all.

But what most of these same Americans do not realize is that this same "charity-by-force" has been practiced, with their approval, for many years by the agency of force—the government.

The government, in its attempts to help the needy, uses force, or the threat of force, in carrying out its welfare program. Since the government has no funds or goods to distribute except those expropriated, via taxation, from the citizens, the government takes our money and threatens us with a fine or imprisonment if we do not cooperate (pay our taxes).

The Symbionese Liberation Army, in its attempt to help the needy, also uses force, or the threat of force, in carrying out its welfare program. Since the Symbionese Army has no funds or goods to distribute except those expropriated, via extortion, from the Hearst family or other victims, the Symbionese Army threatens the Hearst family with the death of its daughter if it does not cooperate (pay the "taxes" leveled by the kidnapers).

Both the Symbionese Liberation Army, and the government, are attempting to practice "charity-by-force." The Symbionese Army is simply doing illegally what it has seen the government do "legally" for decades. This private army is now moving in on the government's monopoly in this welfare-by-force racket, and this should surprise no one since the government set the example and the citizens gave their blessing.

As this country approaches the Bicentennial celebration one frequently hears the question, "What has gone wrong with America?" Part of the answer lies in the fact that this nation has gone from a relatively free country in which citizens practiced true charity—the helping of those in need by voluntary private action—to a relatively non-free country in which government "charity-by-force" has become the way of life.

To set matters right we must first get the government out of the welfare business, which it can only carry out by means of force, before we can expect private citizens or groups, such as the Symbionese Liberation Army, to return to the moral and humane practice of helping those in need by voluntary action.

Thomas L. Johnson
Professor of Biology
Mary Washington College
Fredericksburg, VA

REASON subscribers are encouraged to write letters to the editor of their favorite newspaper, magazine, or journal, presenting libertarian views on topics of current interest. Each month *REASON* selects the most notable *published* letter for republication in this space, and honors the writer by a six-month extension of his or her *REASON* subscription. Send copies of *your* published letters to Reason Letter of the Month, Box 6151, Santa Barbara, CA 93111.

HARRY BROWNE STRIKES BACK

You slay me! I write a book attempting to show that you can be free without the need for political movements or political leaders. So who do you choose to provide a critique and review of the book [*HOW I FOUND FREEDOM IN AN UNFREE WORLD*] ? A political leader.

Not surprisingly, he didn't decide to junk his political movement after one reading of the book.

Instead of letting John Hospers take statements out of context and compare me to Epicurus, why don't you seek out a libertarian who has read the book and attempted to apply the concepts toward his own freedom?

Harry Browne
West Vancouver, B.C., Canada

Harry Browne's latest book, YOU CAN PROFIT FROM A MONETARY CRISIS *(which has sold over 100,000 copies in its first three months of publication—and is now number 2 on all the national best-seller lists), was reviewed in* REASON's *Special Financial Issue last month.—Ed.*

DAVID FRIEDMAN EXPLAINS

Eric Mack, in his review of my book *THE MACHINERY OF FREEDOM* [March], misreads several of the central arguments.

Considering the care with which he has obviously gone over the book, the fault is probably more mine than his.

The bargaining process which I conceive of as producing market law differs from the political "bargaining" process that Mack describes in precisely the same way that any private industry differs from its socialist counterpart. It is true that political processes involve some bargaining analogous to market trade. That is probably why—pace Von Mises—socialist industries are not perfectly inefficient. But the political process does a far worse job than the market process of reflecting individual costs and benefits. That is why socialism works so badly. See chapter 27, 32, 38, and 39, esp. pp. 143-44.

Mack seems to have misunderstood the nature and effects of the bargaining described in chapter 29, misread my discussion of heroin laws, and so missed the whole point of how, under market law, real costs and benefits are accurately reflected in the costs to me of having a particular law. The cost born by supporters of laws against heroin is, as I thought I made clear, not merely the cost of enforcing such laws, but in addition the cost of either paying the addicts to accept such laws (i.e. paying them an amount equal to the injury the laws do them) or refusing the addicts' offer to pay the supporters of the law that same amount to accept laws making heroin legal (on the distinction between these cases see below). So laws against heroin will exist only if the benefit to the supporters of such law is greater than its total cost—including both enforcement *and* the cost to its victims.

Mack also seems not to realize (probably because it was only implicit and not explicit in chapter 31) that my argument depends on the assertion that libertarian law is *objectively* superior to non-libertarian law, even for nonlibertarians. People do not desire law primarily as an end in itself but as a means to other ends. It is my claim that most support for nonlibertarian law is based on factual error, on the belief that its costs and benefits are other than they in fact are. Under market law, a purchaser is faced with the actual costs and benefits of the laws he wants—not as political theories but as economic facts. If, as I claim, the costs to the victims of nonlibertarian law are normally greater than the benefits to the oppressors, only libertarian law will be purchased. This claim is the central assertion behind nineteenth century liberalism—that liberty maximizes utility. It is also implicit in the objectivist argument that a rational egoist must be a libertarian. It is no more necessary for a consumer of market law to understand economics and philosophy than for the purchaser of a car to understand engineering.

Mack does make one valid and important criticism of my argument. The analysis in the book provides no way of telling whether the opponents of heroin must pay the addicts to have heroin laws, or the addicts must pay the opponents not to have them. It provides no "zero point," no definition of what happens if nobody pays anyone. That is why Mack can see it as a system of mutual extortion, with insanely escalating demands for laws no one wants.

This is too serious a deficiency to repair in a letter. The problem is a special case of the initial distribution problem in the analysis of all societies—even libertarian ones (where it takes the form of "who owns things—rivers, unimproved lands, government 'property,' to which no one has a clear claim.") I suspect the answer (to the question of what will happen, not what should) lies somewhere in the ultimate possibility of force. How much I can claim and how much I will let you claim are somehow related, in any society, to what we think would happen to each of us if our disagreement dissolved the society. But that is a direction of enquiry, not an answer.

I cannot, even in a letter this long, answer all of Mack's criticisms. . . . I hope those of your readers who are persuaded by Mack's refutation of my argument will read the argument, as well as the refutation, before they make up their minds.

David Friedman
Philadelphia, PA

PROFESSOR MACK replies: Let me start by joining David Friedman in urging all the readers of my review (and the nonreaders as well) to read Friedman's book. It is, as I think my discussion indicated, the most original and stimulating libertarian book which has come down the pike in a long time. Friedman's letter raises and reraises issues worthy of lengthy debate. My unavoidably short reply should only be interpreted as an unavoidably short reply. I will deal briefly with the central criticism in Friedman's letter. I look forward to Friedman's eventual development of the arguments that are implicit or suggested in his book and in his letter.

In discussing the potential costs born by the supporters of laws against heroin I *was* mistaken in merely citing the costs of enforcing such laws. I should have included the costs, to the supporters, of foregoing payments (in cash or concessions) from those who oppose such laws and who would make payments to secure the absence of such laws. My attention was restricted because, at that point in my article, my purpose was to indicate one way in which libertarian law could result from bargaining and cost-benefit considerations.

Let us now include this potential cost (the cost of foregoing payments from those who oppose laws against heroin) in our scenario. With this broader view, we can see that the bargaining (between supporters and opponents of the laws against heroin) may result in the absence of such laws which absence is due to the opponents' agreeing to pay the supporters "protection money" or bribes in the form of concessions. That is, the absence of laws against heroin may be due to the opponents of these laws buying off the supporters of these laws. These bribes are part of the potential benefits to supporters of these laws and part of the potential costs to those who oppose these laws.

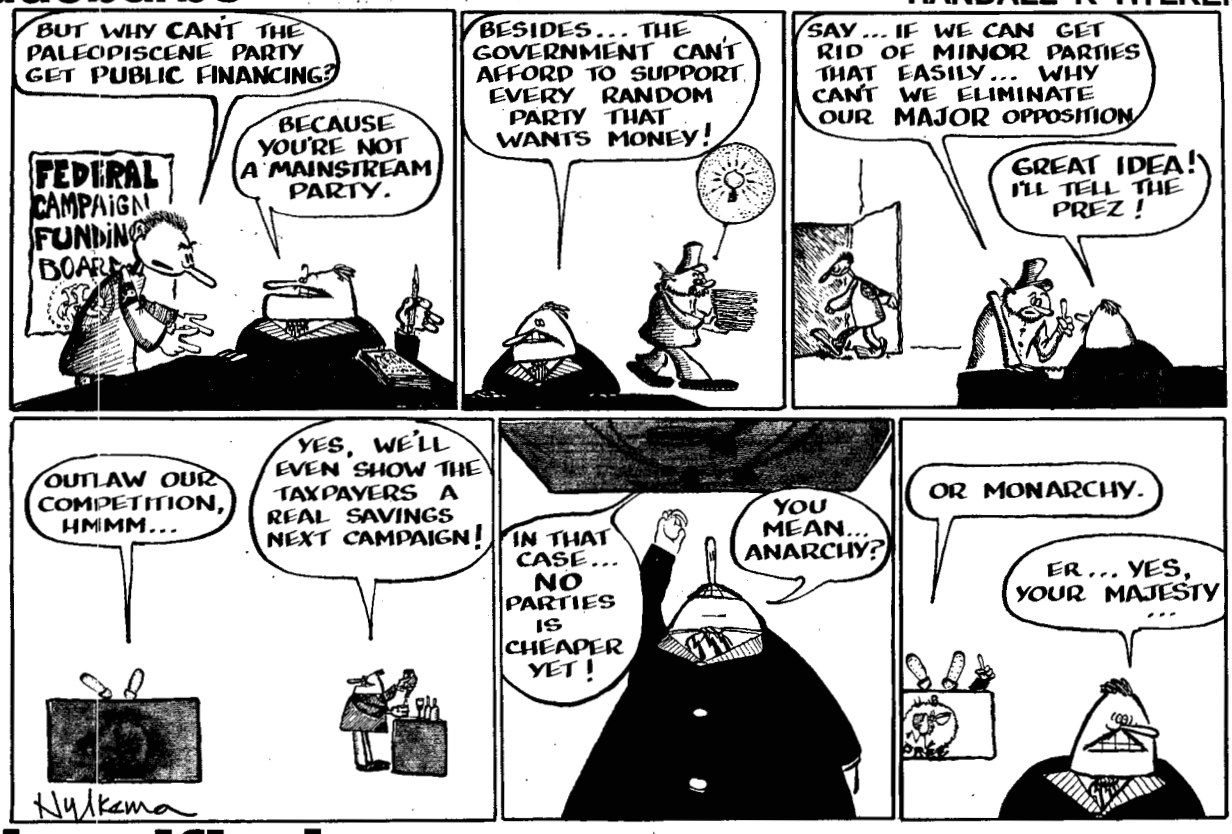
It is this feature of the bargaining situation as Friedman describes it that Friedman is insisting I should not ignore and it is this feature which suggests that the bargaining situation as Friedman describes it could very well fail to have libertarian resolutions. (When the protection money is paid the resolution is libertarian in terms of the final, statutory, agreement. But it is not libertarian in terms of what is done to the opponents of the heroin laws.)

Friedman says, "If, as I claim, the costs to the victims of nonlibertarian law are normally greater than the benefits to the oppressors, only libertarian law will be purchased." I should think that it would be clearer to speak of the total benefits-costs of libertarian law versus the total benefits-costs of nonlibertarian law. In any case, and accepting the premises, the conclusion of Friedman's sentence should not read, "only libertarian law will be purchased." The valid conclusion would read something like, "normally, or for the most part, libertarian law would be purchased—though, at least on some occasions, the purchase of libertarian laws will involve the payment of protection money." Bargaining will result in an efficient mix of libertarian law and payments made under the threat of nonlibertarian law. It is conceivable that what persons will give up under threats will be their own nonlibertarian demands. To the extent that this would happen, everything would be fine. There's nothing wrong about buying off an exponent of nonlibertarian law by offering him peace if and only if he changes his demands. It would be interesting for Friedman to investigate to what extent "bribes" and "pay-offs" are likely to take the form of giving up nonlibertarian demands.—**E.M.**

Letters from readers are welcome. Each receives editorial consideration, although only a selection can be published and none individually acknowledged. They should be kept as brief as possible and are subject to condensation.

rudebarbs

RANDALL K HYLKEMA


BUT WHY CAN'T THE PALEOPISCENE PARTY GET PUBLIC FINANCING?
FEDERAL CAMPAIGN FUNDING BOARD
BECAUSE YOU'RE NOT A MAINSTREAM PARTY.
BESIDES... THE GOVERNMENT CAN'T AFFORD TO SUPPORT EVERY RANDOM PARTY THAT WANTS MONEY!
SAY... IF WE CAN GET RID OF MINOR PARTIES THAT EASILY... WHY CAN'T WE ELIMINATE OUR MAJOR OPPOSITION
GREAT IDEA! I'LL TELL THE PREZ!
OUTLAW OUR COMPETITION, HMMM...
YES, WE'LL EVEN SHOW THE TAXPAYERS A REAL SAVINGS NEXT CAMPAIGN!
IN THAT CASE... NO PARTIES IS CHEAPER YET!
YOU MEAN... ANARCHY?
OR MONARCHY.
ER... YES, YOUR MAJESTY
Nylkema

classifieds

BOOKS

BOOKS ON AYN RAND: *IT USUALLY BEGINS WITH AYN RAND,* Tuccille, $2.95. *WITH CHARITY TOWARDS NONE: AN ANALYSIS OF AYN RAND'S PHILOSOPHY,* O'Neill, (negative) $2.95. *IS OBJECTIVISM A RELIGION?,* Ellis, $5.95. *OPEN LETTER TO AYN RAND,* Childs, $.40. *RETURN TO REASON,* (summary), Lepanto, $6.00. *WHO IS AYN RAND?,* N.& B. Branden, $7.50. Free catalog. LAISSEZ FAIRE BOOKS, Dept. R6, 208A Mercer, New York, NY 10012.

FOR SALE—Number 395, Random House Tenth Anniversary Edition, *ATLAS SHRUGGED,* autographed, mint condition. Best offer within four weeks. *Emilia Nordtvedt,* Box 8148, Haledon, NJ 07508.

CONFERENCES

EQUITARIAN ASSOCIATES will sponsor a conference on art and aesthetics this July 5th and 6th in Milwaukee, Wisconsin. Artists in the disciplines of music, painting, sculpture, and literature will give performances and exhibitions of their work. Each artist will also deliver a paper discussing the intentions, goals, and aesthetic bases of his work. For information and registration material, contact *Thomas Marsh,* 1735 W. Hampton Av., Milwaukee, WI 53209. (414) 263-6461.

EMPLOYMENT

'74 WEBSTER COLLEGE—B.A. Math-Art. Experience: 2½ office, 4—Hwy. Engr. Tech., 9—Electronics, 1½—Teaching. *Girard Baker,* 6358 Delmar, University City, MO 63130.

ACTIVE LIBERTARIAN, 27, CPA (3 yrs. Big-8), M.A.-Economics, seeks employment of two years duration before continuing on with Grad/Law School. Box CB, *REASON.*

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ATTORNEY-LIBERTARIAN: Business oriented with broad corporate-securities experience. Seeks position with law firm, corporation or other compatible situation. Excellent academic record and references. Box RT, *REASON.*

SECRETARY, ADMIN. ASST., GIRL FRIDAY. Just moved to Las Vegas. Want to utilize capabilities in *REASON*able philosophic atmosphere. *Lee Dawson,* 764 Twain, #26C, Las Vegas, NV 89109.

MALE, 29, MARRIED, CHILDREN. B.S., R.P.I.; M.B.A. Experienced: Geology, accounting, environmental impact statements, surveying, fiberglassing, snake breeding. *John Brunner,* 76-J Millside, Delran, NJ 08075.

MANAGER. We are looking for a general manager to take over complete management of our three modern massage studios in the Berkeley area. Preference will be given to those with managerial experience or Business Administration degrees; however, all serious applicants will be considered. Our new manager will enjoy more relaxed, more enjoyable, and far more interesting work than is found in conventional jobs. $10,000–$12,000 to start. The Marina Townhouse, 1042 University Avenue, Berkeley, CA 94704. (415) 549-1733. Leave name and number for *Mr. Davidson.*

LIBERTARIAN COLLEGE STUDENT desires job for the summer (preferably in New York City or vicinity). Willing to work long hours. Contact: *Danny Shapiro,* Noyes House Rm. 326, Poughkeepsie, NY 12601.

TEACHER AVAILABLE, NOT CERTIFIED. B.A. Math, Computer Science. M.A., Ph.D. candidate History, esp. of Science, Cybernetics. Exp. programmer. Full-, part-time. Chicago area. (312) 752-4236. Box BK, *REASON.*

PROGRAMMER/ANALYST: B.S., programming school. Experience: NEAT/3, COBOL, NCR DOS, banking applications. 29, single, Objectivist/libertarian. *Tom Snipes* (305) 552-0560, P.O. Box 330053, Miami, FL 33133.

LIBERTARIAN PROJECT OR BUSINESS? I will graduate in June with a liberal arts degree and I'm seeking a challenging and interesting job. Box JD, *REASON.*

GRAPHIC DESIGN: 2 & 3 dimensional design/photography/system design. 5 yrs. heavy experience in NYC corp., studio. Call: *Joan Charysyn,* 175-20 Wexford Ter. #5P, Jamaica Estates, NY 11432. (212) 739-6343.

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MONTESSORI TEACHER seeks employment in Minneapolis-St. Paul, Minnesota area and farther north. *Charlotte Cushman,* Star Route, Box 261, Tower, MN 55790.

CHEMIST: (B.A. 1974) Bio-Organic. 1 year Industrial and 1 summer clinical experience. Any challenging position. *H. Olson Jr.,* 3695 Vancouver, Concord, CA 94520.

PROGRAMMER AVAILABLE. Many languages, IBM 360, PDP 11, ½ yrs. exp. Ph.D. candidate. B.A. Computer Science, Math. Full-, part-time. Scientific, business. Chicago area. (312) 752-4236. Box BK, *REASON.*

LIBERTARIAN/OBJECTIVIST SEEKS POSITION. B.S.: Physics, Mathematics. Experience: Management, Research, Oil Exploration, Teaching, Computer Analyst/Programmer, Corporation Treasurer. Long hours, hard work appeal. Box HP, *REASON.*

ENGINEER WITH 5 YEARS EXPERIENCE developing insulation systems for electric motors and generators through 15,000 volts seeks position (research or production). Box AR, *REASON.*

LIBERTARIAN, PHYSICS-MATH BACKGROUND, versatile, try most engineering. Tired of law school, seeking position or subcontract. *R. O. Miller,* 139 S. 5E, Missoula, MT 59801.

ARE YOU AN EMPLOYER WHO PREFERS OBJECTIVIST EMPLOYEES? I am male, 25, have B.A. in Business and Philosophy and would prefer to devote my energy towards building a Libertarian enterprise. Location irrelevant to vocation. Contact *Michael Eidahl,* 3610 Cedar, Long Beach, CA 90807.

TURF SPECIALIST SEEKS BETTER POSITION. Presently dedicated teacher of Golf Course Superintendents. Write: *Dr. Hawes,* 5A Laurel Hill, Greenbelt, MD 20770.

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DEFENSIVE INVESTMENTS. Full service brokerage house specializing in domestic and South African gold mining shares, numismatic gold coins. Accounts handled on a professional basis for individuals seeking to protect $10,000 or more. Contact *Steve Buckstein, T. E. Slanker Company, 1004 Yeon Bldg., Portland, OR* 97204.

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FREE YOURSELF!—Escaping "Church"-dictation/enslavement, escaping taxes LAWFULLY: How?: "Churchify" your individual beliefs. Practical details, proved in practice: *TOLERANTS,* POB 36099-R, Houston, TX 77036.

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SEPARATED FATHER WITH A 5 YEAR OLD SON would like to meet others raising children alone. How do we give children maximum freedom while protecting them from their inexperience? Other interests: tennis, jogging, pingpong, books, chess and swimming. Please write: *Bob Williams,* 7201 · 4th Ave., Brooklyn, NY 11209.

MALE LIBERTARIAN, 25, desires intelligent, healthy woman to bear child. Compensation involved. Romantic interest possible if desired. Interested? Reply Box JG, *REASON.*

LET MAN LIVE. For free information about abolishing religion and reforming the Libertarian Party, please send your mailing address to *Rob Myers,* Box 44111, Panorama City, CA 91412.

OBJECTIVIST/LIBERTARIAN: Looking for others of similar persuasion. I'm bored with irrational, deceitful, hollow people and looking for others who are not dead, but RATIONAL, ALIVE, and REAL. I AM! Tom Snipes, Age 29. (305) 552-0560. P.O. Box 330053, Miami, FL 33133.

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CAYMAN PRESS publishes Herbert Spencer *THE RIGHT TO IGNORE THE STATE* (50¢), Antony C. Sutton *WHAT IS LIBERTARIANISM* (50¢) and Lysander Spooner *THE UNCONSTITUTIONALITY OF THE LAWS OF CONGRESS PROHIBITING PRIVATE MAILS* (75¢). Excellent quantity discounts. P.O. Box 1211, Cupertino, CA 95014.

COGITATIONS is on the move—growing bigger and better. Typical articles from earlier issues have dealt with such topics as self-esteem and self-concept development, the insanity of our mental hospitals, art, some notes on the nature of consciousness and death, some insights into Transactional Analysis, the "why" of literature, etc. (there are still some copies of these first issues left for those who would like to start with #1). Upcoming issues will feature a series of interviews with well-known libertarians of differing beliefs and action-directions—in addition to the regular features and articles. Join us. Send $3.50 for one year (11 issues) to *COGITATIONS,* c/o Narlee, 114 Greenfield Lane, Scituate, MA 02066.

FREEDOM, IMMORTALITY AND THE STARS is more than a slogan with the Rational Libertarian Church. When 2001 is ancient history, we will still be here. So can you. Make the Libertarian Future happen. Read *TANSTAAFL!,* 1 year (13 issues) $5, 5 years $23, 10 years $40, 100 years $300, 1000 years $2000. 3 samples $1.00. *TANSTAAFL!,* Dept. D, P.O. Box 2032, Ft. Collins, CO 80521.

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RATES: 15 cents per word, $3.50 minimum. For *REASON* box number instead of personal address, add 50 cents per insertion. Forwarding postage paid by advertiser. All orders must be accompanied by payment, and copy should reach us by the first day of the second month preceding the month of issue (e.g. advertising for the March issue, which is mailed in early February, should reach us by January 1).

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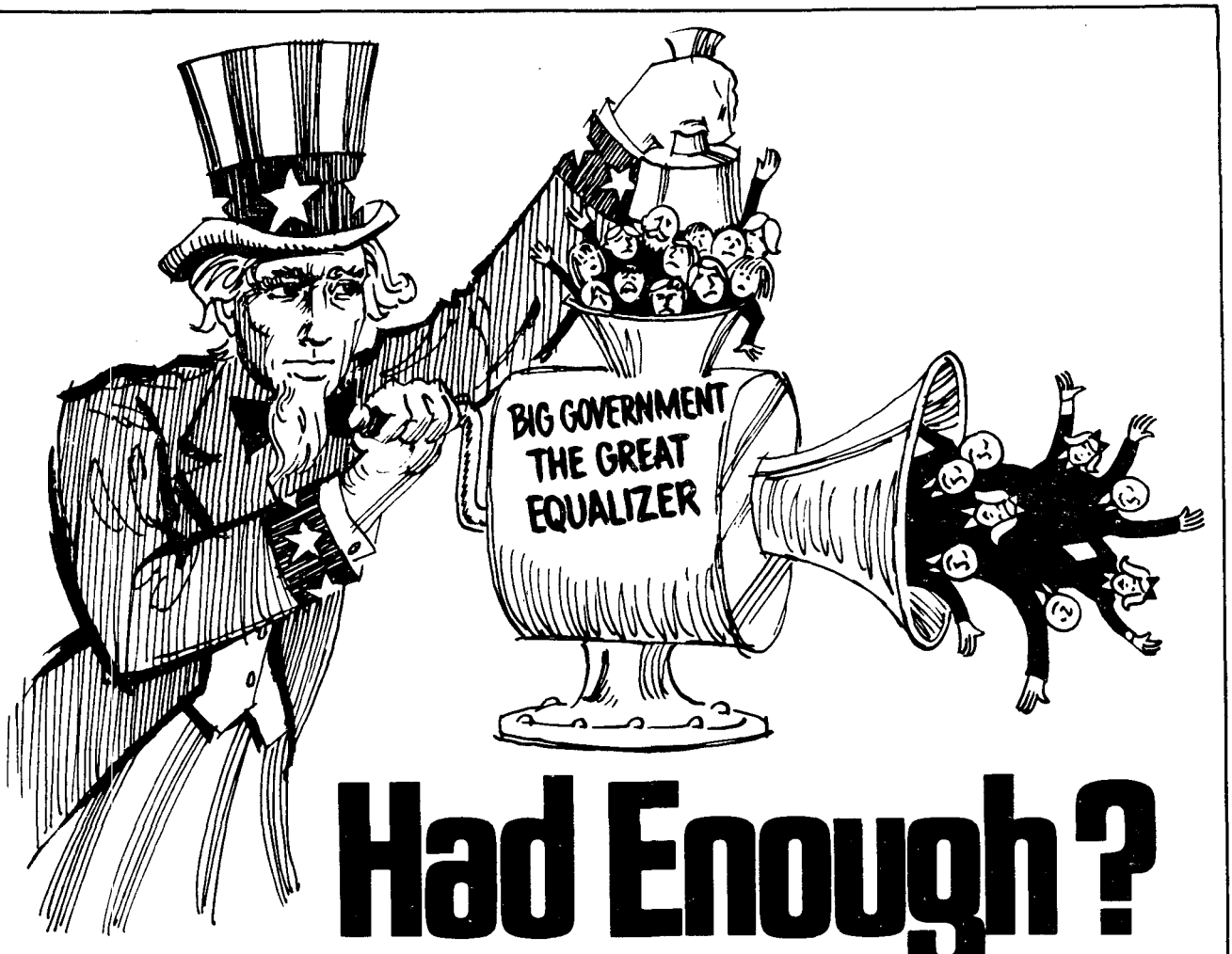

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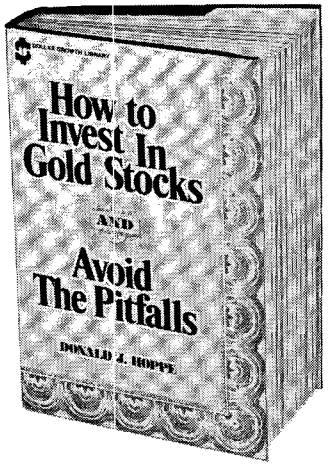
How to Invest in Gold Stocks and Avoid the Pitfalls

Gold expert Donald J. Hoppe shows you what to do



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